Agency Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	154.62	154.62	158.12	158.62	154.62	158.62	4.00	2.59%
Personal Services	8,709,460	10,110,458	10,180,074	10,325,671	18,819,918	20,505,745	1,685,827	8.96%
Operating Expenses	10,010,416	11,131,712	12,919,926	10,519,025	21,142,128	23,438,951	2,296,823	10.86%
Equipment & Intangible Assets	42,077	42,256	42,077	42,077	84,333	84,154	(179)	(0.21%)
Local Assistance	22,633	22,944	44,033	40,633	45,577	84,666	39,089	85.76%
Grants	608,576	860,530	608,576	608,576	1,469,106	1,217,152	(251,954)	(17.15%)
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	0	0	200,000	200,000	0	400,000	400,000	n/a
Debt Service	32,050	32,050	32,050	32,050	64,100	64,100	0	0.00%
Total Costs	**$19,425,212**	**$22,199,950**	**$24,026,736**	**$21,768,032**	**$41,625,162**	**$45,794,768**	**$4,169,606**	**10.02%**
General Fund	6,341,405	6,740,525	9,403,057	7,150,602	13,081,930	16,553,659	3,471,729	26.54%
State Special	5,545,483	7,123,851	6,871,825	6,962,543	12,669,334	13,834,368	1,165,034	9.20%
Federal Special	296,871	624,201	311,871	311,871	921,072	623,742	(297,330)	(32.28%)
Other	0	0	0	0	0	0	0	n/a
Other	7,241,453	7,711,373	7,439,983	7,343,016	14,952,826	14,782,999	(169,827)	(1.14%)
Total Funds	**$19,425,212**	**$22,199,950**	**$24,026,736**	**$21,768,032**	**$41,625,162**	**$45,794,768**	**$4,169,606**	**10.02%**

Agency Description

Mission Statement: The Department of Administration's mission is to serve and satisfy our customers.

The Department of Administration provides support services for state agencies in the following areas:

- Accounting and financial reporting
- Warrant writing
- Technical assistance and training to local government accounting and financial personnel
- Audit review and enforcement for local governments
- State bonded indebtedness administration
- State treasury services
- Capitol complex building maintenance and security
- Duplicating, mail and messenger services
- Procurement and surplus property administration
- Information systems development, telecommunications, geographic information services, 9-1-1 program management, data processing, public safety radio communications, and strategic planning
- Continuity of operations planning
- Human resource management, workforce development and labor relations
- State financial institution oversight and regulation
- Insurance coverage and Tort Claims Act administration
- Long Range Building Program
- State employee group benefits
- Workers compensation management

The Board of Examiners, the State Tax Appeal Board, Office of the Public Defender, the Public Employees' Retirement Board, the Teachers' Retirement Board, the Montana Lottery, and the Montana Consensus Council are attached to the department for administrative purposes only.

Agency Highlights

Department of Administration
Major Budget Highlights

- ♦ Total funds increase $4.2 million, or 10 percent, from the 2009 to the 2011 biennium
- ♦ General fund increases $3.5 million, or 26.5 percent
  - Funding for a high performance computing center adds $2.0 million
  - Statewide present law adjustments add $0.8 million
  - Software to prepare the comprehensive annual financial report adds $0.2 million
  - A subsidy for the Surplus Property Program adds $0.2 million
- ♦ State special revenue increases $1.2 million, or 9.2 percent
  - Statewide present law adjustments add $0.9 million
  - Moving 9-1-1 funds from general fund adds $0.3 million
- ♦ 3.50 FTE are added in FY 2010 (4.00 FTE in FY 2011)
  - 3.00 FTE are added for a workers' compensation program
  - 0.50 FTE in FY 2010 (1.00 FTE in FY 2011) are added to fund a proprietary position with general fund to develop workforce planning training

Major LFD Issues

- ♦ The Surplus Property Program is not self sustaining
- ♦ The late addition of $2.0 million for a high performance computing center has unspecified costs and is undocumented
- ♦ Monthly subsidies for retirees participating in the state employee group health plan exceed 10 to 50 percent of their monthly premium revenue depending on the age of the retiree
- ♦ Performance objectives could be strengthened

Agency Discussion

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to program goals and objectives raised by LFD staff are located in the program section.

<u>2009 Biennium Major Goals</u>

The following provides an update on the major goals monitored during the 2009 interim.

Goal 1 - Implement a centralized state workers' compensation cost containment program

- o Successes

- The program saved an estimated $10.6 million general fund due to such outcomes as lowering worker compensation rates and initiating an early return to work program

- o Challenges
    - Significant time lag in receiving claims data delays some evaluation criteria

Goal 2 - The State Personnel Division will assist executive branch agencies in the implementation of the Broadband Pay Plan.

2011 Biennium Major Goals

The goals provided for the 2011 biennium are all program goals and are addressed in the respective program discussions that follow.

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Agency Market**
    - The department policy does not specify a target market ratio of entry positions. The department advertises positions at entry of the 2006 Executive Branch market survey, except for the State Lottery and State Tax Appeals Board (STAB) hires at 80 percent of market and salaries for STAB members are set by the Governor
    - The statewide personal services adjustment represents salaries for the division at an estimated 93 percent of market relative to the 2008 executive branch market survey, except for Lottery at 99 percent and STAB at 98 percent
    - Prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature the agency was at 104 percent of market relative to the 2006 executive branch market survey, except for Lottery that was at 90 percent and STAB that was at 100 percent
- o **Obstacles** – Except for funding raised by STAB, the department identified no obstacles to implementing its personal services salary plan

Indirect Administrative Costs

The executive includes adjustments in all programs to provide funding for indirect administrative cost payments from service user programs to service provider programs that are funded with proprietary funds and provide centralized services to other programs of the agency. The following figure illustrates the funding and distribution of the adjustments across the agency. The figure shows that direct appropriations of general fund would be increased by about $37,500. The figure also shows that proprietary funds would be increased by about $183,900 and would provide 76 percent of the increased funding. However, the legislature should be aware that proprietary programs of the department, from which these funds would be provided, get their revenue from assessments to all agencies that use the services. Agencies pay for these services with funding from all sources including general fund. Therefore, an increase in proprietary assessment can have a direct impact on the general fund, state special revenue, and federal special revenue expenditures of other agencies.

Indirect Administrative Costs
2011 Biennium
DP106

Program of the department	General Fund	State Special Revenue	Budgeted Proprietary	Non-budgeted Proprietary	Total Funds	HB 2 Base	FY 2008 Proprietary
Director's Office	$0	$0	$0	$4,218	$4,218	$26,536	$2,898
State Accounting Division	277,007	0	0	41,152	318,159	0	67,202
Architecture & Engineering Pgm	0	(6,583)	0		(6,583)	43,163	0
General Services Program	7,274	2,677	0	65,040	74,991	12,034	163,305
Information Tech Serv Division	(1,503)	24,689	0	321,419	344,605	19,346	0
Banking And Financial Division	0	51,561	0	0	51,561	47,019	0
Montana State Lottery	0	0	28,807	0	28,807	50,449	0
Health Care & Benefits Division	0	0	0	130,580	130,580	0	40,136
State Human Resources Division	10,563	0	0	9,927	20,490	19,340	44,271
Risk Management & Tort Defense	0	0	0	60,196	60,196	0	52,134
State Tax Appeal Board	7,221	0	0	0	7,221	6,440	0
	$300,562	$72,344	$28,807	$632,532	$1,034,245	$224,327	$369,946

Proprietary Funds

Legislative Action

The agency includes a number of programs that are funded with funds budgeted in both HB 2 and proprietary funds. Except for the Montana State Lottery and certain direct appropriations of Board of Investment proprietary funds in the State Accounting Division, proprietary funds are not included in the HB 2 tables. Proprietary programs are grouped into two categories: 1) internal service funds; and 2) enterprise funds. For the general appropriations act, Montana law specifies different legislative action for each category.

For internal service funds, the legislature establishes fiscal policy for the programs through its approval of the maximum rates programs may charge during the biennium. The legislature does this by reviewing the financial condition of the fund and the revenue and expense patterns of the program. The legislature reviews historical and planned operations of the program and approves rates that it determines provide financial support for the program at the level the legislature deems appropriate. Decision package descriptions contain an estimated rate impact for the request. This rate impact information provides an avenue for making decisions on factors that change expenses and therefore the rates of the programs. The legislature also provides legislative policy direction for the program, including appropriateness of fund balances.

For enterprise funds, the legislature reviews earnings and contributed capital, projected operations and charges, and projected fund balances. The legislature does not approve the rates being charged, but provides legislative policy direction for the program, including appropriateness of charges and fund balances.

Proprietary Rates

Several programs of the agency are funded with proprietary funds. The legislature does not appropriate proprietary funds, except for proprietary funds that are part of the funding for a HB 2 program and proprietary funds whose net revenues are deposited in the general fund. For internal services type proprietary funds that do not meet the above exceptions, state law directs that the legislature approve the maximum level of fees and charges the program can charge customers for services rendered. The fees and charges generate the revenue for program operations. The fees and charges actually assessed to the customers can be lower during the biennium than those approved by the legislature, but they can not exceed the legislatively approved levels.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding
2011 Biennium Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
01 Director'S Office	$ 238,111	$ 3,174	$ 74,266	$ 315,551	0.69%
02 Governor Elect Program	-	-	-	-	0.00%
03 State Accounting Division	2,863,357	-	23,212	2,985,797	6.52%
04 Architecture & Engineering Pgm	-	3,980,628	-	3,980,628	8.69%
06 General Services Program	5,829,961	109,447	-	5,939,408	12.97%
07 Information Tech Serv Division	3,084,426	2,276,097	526,264	5,886,787	12.85%
14 Banking And Financial Division	-	7,366,354	-	7,366,354	16.09%
15 Montana State Lottery	-	-	-	14,683,771	32.06%
21 Health Care & Benefits Division	-	98,668	-	98,668	0.22%
23 State Human Resources Division	3,466,483	-	-	3,466,483	7.57%
37 State Tax Appeal Board	1,071,321	-	-	1,071,321	2.34%
Grand Total	$ 16,553,659	$ 13,834,368	$ 623,742	$ 45,794,768	100.00%

The agency is primarily funded with general fund, but state special revenue, federal special revenue, and budgeted proprietary funds support operations of several programs. In addition to budgeted proprietary funds, several programs are supported by non-budgeted proprietary funds that rely on legislatively approved fees and charges for generating revenues to support operations. The functions with the highest funding of state special revenue are the Banking and Financial Institution Division’s bank examination and licensing functions, the Architectural and Engineering Division’s construction support function, and the geographic information system coordination functions of the Information Technology Services Division.

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Department of Administration					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
Direct Bearing on Agency Operations					
Address damages with funds received for indemnification of damages to sta	02-17-105	SSR	$1,681,152	$1,681,152	$1,681,152
Return unallowable federal funds	17-3-106	General Fund	69,343	174,000	174,000
Pay for cost of contracting for banking services	17-6-101	General Fund	1,765,606	1,900,000	1,900,000
Pay debt service costs	17-7-502	General Fund	18,984,280	17,475,551	15,992,271
Pay debt service costs	17-7-502	Capital Projects	486,810	510,259	389,311
Pay state lottery prizes	23-7-402	Proprietary	25,402,381	25,402,381	25,402,381
Does Not Relate Directly to Agency Operations					
Distribute 9-1-1 surcharge revenues	10-4-301	SSR	12,830,665	12,830,665	12,830,665
Apportion forest reserve funds to counties	17-3-212	FSR	13,034,354	28,538,743	25,684,869
Distributed mineral impact funds to counties	17-3-241	SSR	9,286,933	9,286,933	9,286,933
Distributed Taylor Grazing Act funds to counties	17-3-222	FSR	120,551	120,551	120,551
State contributions for local government employee pensions	19-3-319	General Fund	354,745	375,669	386,726
State contributions for school district employee pensions	19-3-319	General Fund	298,246	507,896	528,212
State contributions to teacher retirement	19-20-604	General Fund	759,850	829,775	867,115
State supplemental contributions to teacher retirement	19-20-607	General Fund	12,732,525	16,546,041	17,290,613

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	6,341,405	6,341,405	12,682,810	76.62%	19,425,212	19,425,212	38,850,424	84.84%
Statewide PL Adjustments	779,453	761,174	1,540,627	9.31%	1,815,494	1,708,055	3,523,549	7.69%
Other PL Adjustments	21,550	23,224	44,774	0.27%	246,188	331,456	577,644	1.26%
New Proposals	2,260,649	24,799	2,285,448	13.81%	2,539,842	303,309	2,843,151	6.21%
Total Budget	**$9,403,057**	**$7,150,602**	**$16,553,659**		**$24,026,736**	**$21,768,032**	**$45,794,768**	

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	1.17	1.17	1.17	1.17	1.17	1.17	0.00	0.00%
Personal Services	52,249	63,765	59,858	59,872	116,014	119,730	3,716	3.20%
Operating Expenses	40,086	29,849	89,378	32,177	69,935	121,555	51,620	73.81%
Local Assistance	22,133	22,133	37,133	37,133	44,266	74,266	30,000	67.77%
Grants	0	0	0	0	0	0	0	n/a
Benefits & Claims	0	0	0	0	0	0	0	n/a
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$114,468**	**$115,747**	**$186,369**	**$129,182**	**$230,215**	**$315,551**	**$85,336**	**37.07%**
General Fund	90,748	90,169	147,649	90,462	180,917	238,111	57,194	31.61%
State Special	1,587	1,587	1,587	1,587	3,174	3,174	0	0.00%
Federal Special	22,133	23,991	37,133	37,133	46,124	74,266	28,142	61.01%
Other	0	0	0	0	0	0	0	n/a
Total Funds	**$114,468**	**$115,747**	**$186,369**	**$129,182**	**$230,215**	**$315,551**	**$85,336**	**37.07%**

Program Description

The Director's Office is responsible for overall supervision and coordination of agency programs and administratively attached boards and agencies. The Office of Legal Services provides legal services to agency and administratively attached programs. The Office of Finance and Budget provides financial, budgeting, and accounting functions for the department. The Office of Human Resources provides personnel and payroll functions for the department.

Program Highlights

Department of Administration
Director's Office
Major Budget Highlights

- ♦ The office was created in a reorganization out of the former Administrative Financial Services Division
- ♦ Total funds increase $85,000, or 37 percent, from the 2009 to the 2011 biennium
- ♦ General fund increase $57,000, or 31.6 percent
  - Statewide present law adjustments account for 68 percent of the growth
  - Funding for the Burial Board and Board of County Printing account for the remaining growth
- ♦ Federal special revenue grows $28,000, or 61 percent due to federal flood control funds, which were previously budgeted in the Administrative Financial Services Division

Major LFD Issues

- ♦ Performance objectives could be strengthened

Program Narrative

Goals and Objectives

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goal for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

- Provide effective leadership of the Department of Administration
  - Emphasize customer satisfaction and efficiency as the department's primary focus in delivering programs and services
  - Promote long-term financial stability of department programs and services by effective budget management and improved internal controls
  - Promote efficient use of department resources by expanding energy conservation measures and the use of technology

LFD ISSUE The objectives for this goal fail to include performance indicators or timing information that would allow the legislature to formulate an appropriations policy for this function and at a later date determine if the goal was attained. For example, how often, by what means, and to what extent does the office intend to measure customer satisfaction to evaluate if the department customers are satisfied and the department is efficiently delivering programs and services. What are the specific energy conservation objectives and how and when will the measures taken and the use of technology be evaluated to determine if the intended energy has been conserved? The legislature may wish to discuss these questions with the office and formulate objectives it could later use to evaluate if the funding provided allowed the office to achieve the outcomes intended.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table
Director'S Office

Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	$ 90,748	79.3%	$ 147,649	79.2%	$ 90,462	70.0%
	01100 General Fund	90,748	79.3%	147,649	79.2%	90,462	70.0%
02000	Total State Special Funds	1,587	1.4%	1,587	0.9%	1,587	1.2%
	02317 Financial Advisor Fees	1,587	1.4%	1,587	0.9%	1,587	1.2%
03000	Total Federal Special Funds	22,133	19.3%	37,133	19.9%	37,133	28.7%
	03369 Flood Control Payments	22,133	19.3%	37,133	19.9%	37,133	28.7%
Grand	Total	$ 114,468	100.0%	$ 186,369	100.0%	$ 129,182	100.0%

The Director's Office is funded with a combination of general fund, state and federal special revenues, and proprietary funds. General fund provides funding for the office's support of the Board of County Printing, Burial Preservation Board, allocations of police retirement funds, and general management and legal support for statewide functions of the department. State special revenue funds the office's functions in support of the Capital Financial Advisory Council. Federal special revenue funds administrative functions that support allocation of federal flood control payments.

Most operations of the office are funded with non-budgeted proprietary funds, which are discussed in the "Proprietary Rates" section of the narrative.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	90,748	90,748	181,496	76.22%	114,468	114,468	228,936	72.55%
Statewide PL Adjustments	47,901	(9,286)	38,615	16.22%	47,901	(9,286)	38,615	12.24%
Other PL Adjustments	6,500	6,500	13,000	5.46%	21,500	21,500	43,000	13.63%
New Proposals	2,500	2,500	5,000	2.10%	2,500	2,500	5,000	1.58%
Total Budget	**$147,649**	**$90,462**	**$238,111**		**$186,369**	**$129,182**	**$315,551**	

Program Reorganization

The office was created during the base year by dividing into three divisions, the functions that support the management of the agency from those that support the statewide accounting functions and support staff for the human resources portion of the Statewide Budgeting, Accounting, and Human Resource Systems (SABHRS). The agency management functions were organized into this program and the statewide accounting functions were left in a renamed program 03 – State Accounting Division. Additionally, the support staff for the human resources functions of SABHRS was transferred to the former State Personnel Division. The SABHRS functions that support the financial systems remained in the State Accounting Division.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					10,103					10,118
Vacancy Savings					(2,494)					(2,495)
Inflation/Deflation					3					4
Fixed Costs					40,289					(16,913)
Total Statewide Present Law Adjustments					**$47,901**					**($9,286)**
DP 103 - Burial Board	0.00	6,500	0	0	6,500	0.00	6,500	0	0	6,500
DP 105 - Flood Control	0.00	0	0	15,000	15,000	0.00	0	0	15,000	15,000
Total Other Present Law Adjustments	**0.00**	**$6,500**	**$0**	**$15,000**	**$21,500**	**0.00**	**$6,500**	**$0**	**$15,000**	**$21,500**
Grand Total All Present Law Adjustments					**$69,401**					**$12,214**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate**
  - The statewide personal services adjustment represents salaries for the office at an estimated 93 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 100 percent of market relative to the 2006 executive branch market survey
- **Vacancy**
  - The office has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention
- **Legislatively Applied Vacancy Savings**
  - The office used normal turnover and when vacancies occurred, held positions open in order to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT In terms of FTE-hours, the division experienced a 14.5 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the office under spent its personal services authority by 18.2 percent as appropriated by the 2007 Legislature in the former Administrative and Financial Services Division and transferred during the above mentioned reorganization.

- **Pay Changes**
  - Pay increases given to office HB 2 funded staff were limited primarily to the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature
- **Retirements**
  - The division anticipates no employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium

DP 103 - Burial Board - An increase of $13,000 general fund for the biennium is requested to fund travel costs for Burial Preservation Board meetings and investigations of burial sites and sites holding funerary objects. The request assumes two meetings per year for the twelve-member board.

DP 105 - Flood Control - An increase of $30,000 federal special revenue for the biennium is requested to fund distribution of federal flood control payments to designated counties.

New Proposals

New Proposals

	Fiscal 2010					Fiscal 2011				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 104 - Board of County Printing										
01	0.00	2,500	0	0	2,500	0.00	2,500	0	0	2,500
Total	**0.00**	**$2,500**	**$0**	**$0**	**$2,500 ***	**0.00**	**$2,500**	**$0**	**$0**	**$2,500 ***

DP 104 - Board of County Printing - An increase of $5,000 general fund for the biennium is requested to fund expenses for one meeting of the five-member Board of County Printing. The board sets the maximum prices that may be charged to counties for legal advertising and accompanying printing standards.

Proprietary Program Description

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Management Services Internal Service - Proposed Budget Table

Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	12.83	1.00	13.83	1.00	13.83
61000 Personal Services	$823,793	$189,363	$1,013,156	$190,064	$1,013,857
62000 Operating Expenses	176,427	23,297	199,724	19,853	196,280
Total Costs	$1,000,220	$212,660	$1,212,880	$209,917	$1,210,137

Proprietary Program Description

The Management Services Unit consists of the Director's Office, the Office of Legal Services, the Office of Human Resources, and the Office of Finance and Budget. The Management Services Unit coordinates preparation and presentation of the department's biennial budget, monitors approved budgets for compliance with state law and legislative intent, provides accounting assistance to divisions within the department, processes payroll and provides new employee orientation for all divisions within the department, including attached-to agencies, assists with recruitment and selection, classifies positions, develops personnel policies and procedures, and advises all divisions within the department on legal matters.

Funding

The following table shows estimated funding sources for payments made by users for the base and the 2011 biennium.

Estimated Funding for Payments to Management Services

Item	Base	FY 2010 est.	FY 2011 est.
General Fund	$68,945	$91,974	$93,521
State Special Revenue	98,492	131,391	133,601
Federal Special Revenue	0	0	0
Proprietary	758,390	1,011,712	1,028,728
Other	59,095	78,835	80,161
Total Payments	$984,922	$1,313,912	$1,336,010

Program Narrative

Expenses

The major expenses of the unit are for personal services for 12.83 FTE that comprise 82.4 percent of base expenditures.

Revenues

The program is funded with revenues received from charging other programs and attached agencies and boards for management, legal, financial, and human resource services.

The figure for fund 06534 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06534	Management Services	61010	Administration	Director's Office

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$854,956	$941,023	$1,055,370	$1,056,102
Other Operating Expenses	188,990	137,998	199,724	196,280
Total Operating Expenses	1,043,946	1,079,021	1,255,094	1,252,382
Operating Revenues:				
Revenue From Fees	984,922	996,441	1,313,912	1,336,010
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	3	0	0	0
Total Operating Revenue	984,925	996,441	1,313,912	1,336,010
Operating Gain (Loss)	(59,021)	(82,580)	58,818	83,628
Other Sources (Uses)	0	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Y	131,167	72,415	(10,165)	48,653
Net Increase (Decrease) of Net Assets	(59,021)	(82,580)	58,818	83,628
Prior Period Adjustments	269	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$72,415	($10,165)	$48,653	$132,281

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Management Services - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$119,063	$119,072
DP 0106 Allocate department indirect/administrative	2,080	2,138
Total Present Law Adjustments	$121,143	$121,210

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section. No rate impact is expected from this adjustment.

New Proposals

Management Services Internal Services Program - New Proposals		
DP Name	FY 2010	FY 2011
DP 0101 Program Manager	$91,082	$88,330
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	435	377
Total New Proposals	$91,517	$88,707

DP 0101 - Program Manager – An increase of $179,400 proprietary funds for the biennium is requested to fund the addition of 1.00 FTE Program Manager to assist with department-wide projects. This FTE is being transferred from the Surplus Property Program in the General Services Division under new proposal DP 618 - Transfer FTE to Director's Office. The estimated impact of this decision package is a 13 percent increase in the Management Services rate.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process. No rate impact is expected from this adjustment.

Proprietary Rate Explanation

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

Management Services Internal Services - Rates

Rate	Actual FY 2008	Budgeted FY 2009	Requested FY 2010	Requested FY 2011
Portion of unit except for Office of Human Resources (total allocation of costs)	$984,922	$996,440	$1,002,940	$1,016,821
Office of Human Resources (charge per FTE of user programs)	417	429	553	567

LFD COMMENT

The costs allocated to users would increase by 33.4 percent from FY 2008 to FY 2010 and by 35.6 percent from FY 2008 to FY 2011. DP 0101 accounts for an increase of 13 percent. The remaining portions of the increases are due to statewide present law adjustments.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	18.67	18.67	18.67	18.67	18.67	18.67	0.00	0.00%
Personal Services	1,049,614	1,127,015	1,115,334	1,118,645	2,176,629	2,233,979	57,350	2.63%
Operating Expenses	239,981	268,855	475,799	276,019	508,836	751,818	242,982	47.75%
Local Assistance	0	0	0	0	0	0	0	n/a
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$1,289,595**	**$1,395,870**	**$1,591,133**	**$1,394,664**	**$2,685,465**	**$2,985,797**	**$300,332**	**11.18%**
General Fund	1,228,375	1,282,859	1,529,913	1,333,444	2,511,234	2,863,357	352,123	14.02%
Federal Special	11,606	63,342	11,606	11,606	74,948	23,212	(51,736)	(69.03%)
Other	49,614	49,669	49,614	49,614	99,283	99,228	(55)	(0.06%)
Total Funds	**$1,289,595**	**$1,395,870**	**$1,591,133**	**$1,394,664**	**$2,685,465**	**$2,985,797**	**$300,332**	**11.18%**

Program Description

The State Accounting Division is the process owner of the finaccial portion of the Statewide Budgeting, Accounting, and Human Resource Systems (SABHRS), establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, prepares and negotiates the Statewide Cost Allocation Plan (SWCAP), and prepares the state Comprehensive Annual Financial Report (CAFR). The division provides accounting assistance and training to state agencies and provides technical assistance and training to local government accounting and financial personnel. The division also provides the central banking function for state agencies, reconciles the state bank accounts held in approximately 60 banks, and insures the collateralization of these banks accounts is maintained at the proper level. The division maintains and publishes the local government Budgetary, Accounting, and Reporting System (BARS) chart of accounts and the county collection and accounting manuals.

Functions discussed later in the proprietary rates section include the warrant writer activities, and the audit review function for local governments.

Program Highlights

Department of Administration
State Accounting Division
Major Budget Highlights

- The division was renamed and transferred functions in a reorganization
- Total funds increase $300,000, or 11.2 percent, from the 2009 to the 2011 biennium
- General fund increases $352,000, or 14.0 percent
    - Statewide present law adjustments account for nearly all of the present law increases
    - One time funding for software to prepare the comprehensive annual financial report would add $200,000 in FY 2010

Major LFD Issues

- Performance objectives could be strengthened

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goal for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

- o Provide accurate and updated accounting policy and support for state agencies in an effective and efficient manner
    - Review previously written accounting policy for accuracy and update as needed
    - Provide accounting technical education and assistance to agency personnel
    - Approve, reconcile, and monitor all non-university system or inter-entity loans
    - Assist agencies in development of agency accounting internal controls

LFD ISSUE

The objectives for this goal fail to include performance indicators or timing information that would allow the legislature to formulate an appropriations policy for this function and at a later date determine if the goal was attained. The objectives provided list generic activities but lack specifics as to what would be accomplished, when it would be accomplished, and how it would be monitored to evaluate if what was done accomplished what was intended. The objectives could be restructured to specify, for example, how soon after an update is made to an accounting rule the policy would be updated, how and when the updated information would be made available to agencies, and what monitoring the division would do to evaluate if the updated policy was being followed as intended. Although the division isn't responsible for how agencies comply with the policies, establishing an effective process for timely updating, communicating the updates, and determining if the efforts to communicate the policies are effective is the implied goal of the division.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table

State Accounting Division

Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	$ 1,228,375	95.3%	$ 1,529,913	96.2%	$ 1,333,444	95.6%
	01100 General Fund	1,228,375	95.3%	1,529,913	96.2%	1,333,444	95.6%
03000	Total Federal Special Funds	11,606	0.9%	11,606	0.7%	11,606	0.8%
	03320 Cmia Funds	11,606	0.9%	11,606	0.7%	11,606	0.8%
	03369 Flood Control Payments	-	-	-	-	-	-
	03717 Jobs And Growth Tax Relief Act	-	-	-	-	-	-
06000	Total Proprietary Funds	49,614	3.8%	49,614	3.1%	49,614	3.6%
	06527 Investment Division	49,614	3.8%	49,614	3.1%	49,614	3.6%
Grand	Total	$ 1,289,595.00	100.0%	$ 1,591,133.00	100.0%	$ 1,394,664	100.0%

The State Accounting Division is funded with general fund, federal special revenues, and proprietary funds. General fund provides funding for the statewide accounting standards, treasury, and accounting assistance for local government. Federal special revenue provides funding for activities associated with the federal Cash Management Improvement Act funds and the federal portion of State Fund dividends. The division is also funded with a direct appropriation from the Board of Investments proprietary fund for services the Treasury Unit provides to the board.

Most operations of the division are funded with non-budgeted proprietary funds, which are discussed in the "Proprietary Rates" section of the narrative.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	1,228,375	1,228,375	2,456,750	85.80%	1,289,595	1,289,595	2,579,190	86.38%
Statewide PL Adjustments	97,059	100,245	197,304	6.89%	97,059	100,245	197,304	6.61%
Other PL Adjustments	3,898	4,321	8,219	0.29%	3,898	4,321	8,219	0.28%
New Proposals	200,581	503	201,084	7.02%	200,581	503	201,084	6.73%
Total Budget	**$1,529,913**	**$1,333,444**	**$2,863,357**		**$1,591,133**	**$1,394,664**	**$2,985,797**	

Program Reorganization

The division was part of a reorganization that moved portions of the former Administrative and Financial Services (AFS) Division to a new program, the Director's Office, and to the State Human Resources Division. The former Administrative and Financial Services Division was renamed the State Accounting Division. Additionally, the portion of the former AFS that supported operations of the human resources functions of the Statewide Budgeting, Accounting, and Human Resource Systems (SABHRS) was transferred to the former State Personnel Division and that division was renamed the State Human Resources Division. The SABHRS functions that support the financial systems remained in the State Accounting Division, except that database administrator positions were transferred to the Information Technology Services Division.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					112,192					115,639
Vacancy Savings					(46,472)					(46,608)
Inflation/Deflation					692					867
Fixed Costs					30,647					30,347
Total Statewide Present Law Adjustments					**$97,059 ***					**$100,245 ***
DP 106 - Allocate deparment indirect/admin costs	0.00	3,898	0	0	3,898	0.00	4,321	0	0	4,321
Total Other Present Law Adjustments	**0.00**	**$3,898**	**$0**	**$0**	**$3,898**	**0.00**	**$4,321**	**$0**	**$0**	**$4,321**
Grand Total All Present Law Adjustments					**$100,957**					**$104,566**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- o **Market Rate**
  - The statewide personal services adjustment represents salaries for the division at an estimated 88 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 97 percent of market relative to the 2006 executive branch market survey
- o **Vacancy**
  - The division has identified accountants as an occupational group that poses difficulties of high turnover or difficulties in recruitment and retention
- o **Legislatively Applied Vacancy Savings**
  - The division used normal turnover in order to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT In terms of FTE-hours, the division experienced a 10 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the office under spent its personal services authority by 7.5 percent as appropriated by the 2007 Legislature in the former Administrative and Financial Services Division and the funding transfers of the above mentioned reorganization.

- o **Pay Changes**
  - Pay increases given to division HB 2 funded staff were limited to the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature
- o **Retirements**
  - The division anticipates seven employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium

LFD COMMENT The division was unable to estimate the unfunded compensated absence liability these seven employees would generate.

DP 106 - Allocate deparment indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals

	---Fiscal 2010---					---Fiscal 2011---				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 304 - CAFR Software -OTO										
03	0.00	200,000	0	0	200,000	0.00	0	0	0	0
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation										
03	0.00	581	0	0	581	0.00	503	0	0	503
Total	**0.00**	**$200,581**	**$0**	**$0**	**$200,581 ***	**0.00**	**$503**	**$0**	**$0**	**$503 ***

DP 304 - CAFR Software -OTO - An increase of $200,000 general fund for the biennium is requested to lease and implement Comprehensive Annual Financial Report (CAFR) preparation software. The executive recommends the legislature designate funding for this request as one time only.

LFD COMMENT According to the division, the current CAFR preparation process requires the division to contract for the services of a software programmer proficient in the COBOL programming language. Such programmers are becoming scarce and the need for such could be eliminated with the software funded in this request.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

Statewide Accounting, Budgeting and Human Resources Program (Fund 06511)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

SABHRS Services Bureau Internal Service - Proposed Budget Table

Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	18.00	0.00	18.00	0.00	18.00
61000 Personal Services	$1,163,009	$180,192	$1,343,201	$185,273	$1,348,282
62000 Operating Expenses	2,472,554	763,848	3,236,402	503,050	2,975,604
Total Costs	$3,635,563	$944,040	$4,579,603	$688,323	$4,323,886

Program Description

The Statewide Accounting, Budgeting and Human Resource (SABHRS) Finance and Budget Bureau (SFAB) is responsible for operational support and maintenance for the financial portion of SABHRS and Montana Budget, Analysis, and Reporting System (MBARS).

Funding

The following table shows estimated funding sources for payments made by users for the base and the 2011 biennium.

Estimated Funding for Payments to SABHRS Services Bureau
($ million)

Item	Base	FY 2010 est.	FY 2011 est.
General Fund	$1.3	$1.5	$1.4
State Special Revenue	0.9	1.0	1.0
Federal Special Revenue	0.5	0.6	0.5
Proprietary	0.8	0.9	0.9
Other	0.5	0.6	0.5
Total Payments	$4.0	$4.5	$4.3

Program Narrative

Expenses

Personal services funding for 18.00 FTE comprise nearly half of the costs for the program. The remaining operating costs are dominated by costs to host SABHRS on the state computer network and support its operations, and software licensing.

Revenues

Revenues are derived from allocating costs to agencies under a SABHRS administrative cost charge. Agencies are budgeted for the allocation under the fixed component of their statewide present law adjustments. Agency allocations are determined based on the number of journals (88.3 percent of allocation) and the number of budget decision package items in their budgets (11.3 percent of allocation).

The figure for fund 06511 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06511	SABHRS	61010	Administration	State Accounting Division

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$1,042,831	$1,274,590	$1,343,201	$1,348,282
Other Operating Expenses	1,062,905	2,694,389	3,236,402	2,975,604
Total Operating Expenses	2,105,736	3,968,979	4,579,603	4,323,886
Operating Revenues:				
Revenue From Fees	4,116,841	3,975,225	4,507,446	4,344,459
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	1,428	0	0	0
Total Operating Revenue	4,118,269	3,975,225	4,507,446	4,344,459
Operating Gain (Loss)	2,012,533	6,246	(72,157)	20,573
Other Sources (Uses) (Note 1)	(1,078,478)	0	0	0
Net Assets as of July 1 (Begin	378,755	750,859	757,105	684,948
Net Increase (Decrease) of Net Assets	934,055	6,246	(72,157)	20,573
Prior Period Adjustments	(561,951)	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$750,859	$757,105	$684,948	$705,521

Note 1 - Includes contributed capital ($507,559) and operating transfer out ($1,586,037) in FY 2008. A contributed capital is recorded for the same magnitude as the operating transfer out in FY 2008 in the Human Resources Information fund 06563 and is due to the reorganization that moved the human resources systems to the State Human Resources Division.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

SABHRS Services Bureau - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$283,464	$214,378
DP 0106 Allocate department indirect/admin costs	20,816	21,700
DP 0302 SABHRS Maintenance	151,200	158,760
DP 0303 SABHRS Training Costs	200,000	0
DP 0305 Inc. License/Maint. Costs and Contracted Se	238,000	243,000
Total Present Law Adjustments	$893,480	$637,838

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency. This is a common adjustment for all programs of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 0302 - SABHRS Maintenance – An increase of $309,960 proprietary funds for the biennium is requested to fund increased maintenance resulting from a new SABHRS finance module added during the 2009 biennium. The estimated impact of this request is a 3.3 percent increase of the base rate for FY 2010 and a 3.6 percent increase for FY 2011.

DP 0303 - SABHRS Training Costs – An increase of $200,000 proprietary funds for the biennium is requested to increase training for bureau staff. The estimated impact of the request is a 4 percent increase for the FY 2010 rates as compared to the base rate.

DP 0305 - Inc. License/Maint. Costs and Contracted Services – An increase of $481,000 proprietary funds for the biennium is requested to fund increases in the license, maintenance, and contract services to support SABHRS. The estimated impact of this request is a 5.2 percent increase of the base rate for FY 2010 and a 5.6 percent increase for FY 2011.

LFD COMMENT The SABHRS licensing agreement with PeopleSoft is capped at the state budget level of $3.25 billion. Budget increases above this level would trigger additional product license costs of $195,000 per $350.0 million increase in state budget. The request for FY 2010 and FY 2011 includes increases equivalent to 22 percent of the license increase for increased maintenance costs, or $43,000. For FY 2011, the request includes $150,000 in system development costs to prepare MBARS for the 2011 Legislature and $50,000 in additional contracting services to support costs associated with upgrading SABHRS to the newest version of PeopleSoft.

New Proposals

DP 0306 Lease Costs Associated with CAFR Software – An increase of $100,000 proprietary fund for the biennium is requested to lease a software program to build the comprehensive annual financial report (CAFR). The CAFR Builder Maintenance program would increase rates by 1.0 percent for each year above the base rate.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

SABHRS Services Bureau - Rates				
	Actual	Budgeted	Requested	Requested
Rate	FY 2008	FY 2009	FY 2010	FY 2011
SABHRS Services Fee (Note 1)	$4,116,841	$3,975,225	$4,507,446	$4,344,459

Note 1: Rate is the maximum amount fee revenue the bureau may collect from users

Warrant Writer Program (Fund 06564)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Warrant Writing Internal Service - Proposed Budget Table					
		FY 2010	FY 2010	FY 2011	FY 2011
Account Name	Actual Base	Adjustments	Total	Adjustments	Total
FTE	6.33	0.00	6.33	0.00	6.33
61000 Personal Services	$206,599	$18,457	$225,056	$19,697	$226,296
62000 Operating Expenses	811,603	38,829	850,432	8,655	820,258
67000 Benefits & Claims	0	(0)	0	(0)	0
69000 Debt Service	19,002	(0)	19,002	(0)	19,002
Total Costs	$1,037,204	$57,286	$1,094,490	$28,352	$1,065,556

Program Description

The department provides the services of the Warrant Writer Program to state agencies for check writing and automatic-deposit capabilities for financial transactions. The program produces and processes warrants and tracks them on the warrant writer system. The program generates, mails, tracks, and cashes each warrant. The services the program offers include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data, and federal 1099-MISC processing. Because the service is mandated in statute, no alternative exists for agencies that need checks processed and funds transferred to vendors electronically if they use the state accounting system.

Funding

The following table shows estimated funding sources for payments made by users for the base and the 2011 biennium.

Estimated Funding for Payments to Warrant Writing			
		FY 2010	FY 2011
Item	Base	est.	est.
General Fund	$466,000	$428,595	$412,111
State Special Revenue	222,000	204,181	196,328
Federal Special Revenu	218,000	200,502	192,790
Proprietary	67,000	61,622	59,252
Other	223,000	205,100	197,212
Total Payments	$1,196,000	$1,100,000	$1,150,000

Program Narrative

Expenses

Areas that drive the costs for the program are:

- Postage and mailing ($548,000 or 53 percent)
- Personal services for 6.33 FTE ($207,000 or 20 percent)
- Printing ($160,000 or 15 percent)

Revenues

Revenues are derived by billing based on the type of warrant processed.

The figure for fund 06564 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06554	Warrant Writing	61010	Administration	State Accounting Division

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$215,193	$244,753	$225,056	$226,296
Other Operating Expenses	880,202	713,557	868,429	838,252
Total Operating Expenses	1,095,395	958,310	1,093,485	1,064,548
Operating Revenues:				
Revenue From Fees	1,210,927	985,000	1,100,000	1,150,000
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	12	0	0	0
Total Operating Revenue	1,210,939	985,000	1,100,000	1,150,000
Operating Gain (Loss)	115,544	26,690	6,515	85,452
Other Sources (Uses) (Note 1)	0	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Y	13,940	129,484	156,174	162,689
Net Increase (Decrease) of Net Assets	115,544	26,690	6,515	85,452
Prior Period Adjustments	0	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$129,484	$156,174	$162,689	$248,141

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Warrant Writing - Present Law Adjustments		
DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$58,381	$29,292
DP 0106 Allocate department indirect/adminis	(1,292)	(1,110)
Total Present Law Adjustments	$57,089	$28,182

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

Warrant Writing Internal Services - Rates				
Rate	Actual FY 2008	Budgeted FY 2009	Requested FY 2010	Requested FY 2011
Mailer	$0.6886	$0.6920	$0.7212	$0.7245
Non-Mailer	0.2584	0.2618	0.3012	0.2945
Emergency	4.7818	4.7809	13.6455	13.6487
Duplicates	5.5935	5.5926	3.2601	3.2634
Externals				
Externals - Payroll	0.2305	0.2339	0.2050	0.1988
Externals - Universities	0.1966	0.2000	0.1223	0.1153
Direct Deposit				
Direct Deposit - Mailer	0.6468	0.6445	0.7623	0.7753
Direct Deposit - No Advice Printed	0.2387	0.2269	0.1223	0.1153
Unemployment Insurance				
Mailer - Print Only	0.1410	0.1410	0.1789	0.1792
Direct Deposit - No Advice Printed	0.4300	0.4300	0.4538	0.4297

Audit Review Program (Fund 06042)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Single Audit Review Enterprise Fund - Proposed Budget Table					
Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	4.00	0.00	4.00	0.00	4.00
61000 Personal Services	$189,479	$35,966	$225,445	$37,164	$226,643
62000 Operating Expenses	82,627	4,887	87,514	4,591	87,218
Total Costs	$272,106	$40,853	$312,959	$41,755	$313,861

Program Description

The Audit Review program is responsible for administering the provisions of the Montana Single Audit Act (MSAA), which specifies the audit requirements for all Montana local government entities (2-7-5, MCA). The program performs the following services:

- Mails out to and receives annual financial reports from approximately 900 local governments
- Enters selected financial data from the reports into a database
- Obtains and enters into the database information regarding school district revenues
- Determines which local government entities are subject to audit under the act and notifies them of the audit requirements
- Accepts applications from and maintains a roster of independent auditors authorized to conduct local government audits
- Prepares and keeps current a legal compliance supplement for use by independent auditors in conducting local government audits
- Receives and approves audit contracts for local government audits
- Verifies that all local governments required to have audits do so
- Receives and reviews local government audit reports to determine whether the audits have been conducted in accordance with required standards
- Notifies state agencies of audit findings related to financial assistance programs that they administer
- Receives and reviews each local government's response to the audit report findings and determines whether the entity has developed a satisfactory plan to correct deficiencies noted in the audit report
- Maintains copies of all local government entity audit reports and the local government's responses to audit findings, and makes those reports and responses available upon request to state and federal agencies and the public
- Provides technical advice on accounting, auditing, and legal compliance matters to local governments and certified public accountants conducting local government audits
- Investigates or refers to auditors for follow-up action complaints or allegations received from the public, either directly or through the Legislative Auditor's hotline
- Provides information regarding local government audits, audit findings, entity responses to findings, and legal compliance and accounting requirements to the public
- Requests for special audits and arranges for such audits if determined to be necessary

Program Narrative

Expenses

Areas that drive the costs for the program are:

- Personal services for 4.00 FTE ($190,000 or 70 percent)
- Operating costs that are dominated by rent and indirect costs paid to other programs of the department that provide accounting, budgeting, and human resources services for the program ($83,000 or 30 percent)

Revenues

Revenues are derived from two fees:

- The report filing fee, required by 2-7-514, MCA, is based upon costs incurred by the department for administering the Audit Review Program. All local government entities that are required to submit audits pay the filing fee. The fee schedule has been adopted as ARM 2.4.402 and shown in the fund report
- A roster fee is collected from certified public accountants for inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana. The annual auditor roster fee has been adopted as ARM 2.4.406. The current fee in the rule is $100 per year

The figure for fund 06042 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06042	Single Audit	61010	Administration	State Accounting Division

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$191,281	$254,635	$225,445	$226,643
Other Operating Expenses	82,627	80,820	86,774	86,477
Total Operating Expenses	273,908	335,455	312,219	313,120
Operating Revenues:				
Revenue From Fees				
Revenue from Audit Review Roster Fees	5,800	5,800	5,800	5,800
Revenue from Annual Report Filing Fees	353,430	309,200	309,200	309,200
Total Revenue From Fees	359,230	315,000	315,000	315,000
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	224	25	25	25
Total Operating Revenue	359,454	315,025	315,025	315,025
Operating Gain (Loss)	85,546	(20,430)	2,806	1,905
Other Sources (Uses) (Note 1)	(10,908)	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Year)	179,613	254,251	233,821	236,627
Net Increase (Decrease) of Net Assets	74,638	(20,430)	2,806	1,905
Prior Period Adjustments	0	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$254,251	$233,821	$236,627	$238,532

Note 1 - Other nonoperating expenses in FY 2008 ($10,908)

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Single Audit Review Enterprise Fund - Present Law Adjustments		
DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$40,282	$41,056
DP 0106 Allocate department indirect/admin costs	447	591
Total Present Law Adjustments	$40,729	$41,647

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

Single Audit Review Enterprise Fund - Fees (Information Only)				
	Actual	Budgeted	Budgeted	Budgeted
Fee	FY 2008	FY 2009	FY 2010	FY 2011
Local Government Report Filing Fee (Variable):				
Annual revenues less than $200,000	$0	$0	$0	$0
Annual revenues equal to or greater than $200,000, but less than $500,000	200	0	0	0
Annual revenues equal to or greater than $500,000, but less than $1,000,000	435	435	435	435
Annual revenues equal to or greater than $1,000,000, but less than $1,500,000	635	635	635	635
Annual revenues equal to or greater than $1,500,000, but less than $2,500,000	760	760	760	760
Annual revenues equal to or greater than $2,500,000, but less than $5,000,000	845	845	845	845
Annual revenues equal to or greater than $5,000,000, but less than $10,000,000	890	890	890	890
Annual revenues are equal to or greater than $10,000,000, but less than $50,000,000	965	965	965	965
Annual revenues are equal to or greater than $50,000,000	1,000	1,000	1,000	1,000
Annual Auditor Roster Fee	100	100	100	100

Because the program is funded with an enterprise type proprietary fund, the legislature does not approve fees charge by the program in HB 2. Instead, fees are set in statute or by administrative rule. The fees listed on the above table are for information only.

Program Budget Comparison
The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	17.00	17.00	17.00	17.00	17.00	17.00	0.00	0.00%
Personal Services	1,014,799	1,121,134	1,266,546	1,270,286	2,135,933	2,536,832	400,899	18.77%
Operating Expenses	665,155	673,907	719,343	724,453	1,339,062	1,443,796	104,734	7.82%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$1,679,954**	**$1,795,041**	**$1,985,889**	**$1,994,739**	**$3,474,995**	**$3,980,628**	**$505,633**	**14.55%**
State Special	1,679,954	1,795,041	1,985,889	1,994,739	3,474,995	3,980,628	505,633	14.55%
Other	0	0	0	0	0	0	0	n/a
Total Funds	**$1,679,954**	**$1,795,041**	**$1,985,889**	**$1,994,739**	**$3,474,995**	**$3,980,628**	**$505,633**	**14.55%**

Program Description
The Architecture & Engineering Program manages remodeling and construction of state buildings. Its functions include planning new projects and remodeling projects; advertising, bidding, and awarding construction contracts; administering contracts with architects, engineers, and contractors; disbursing building construction payments; and providing design services for small projects. The program also formulates a long-range building plan for legislative consideration each session. In addition, the division is developing and implementing a condition and needs assessment of K-12 public school facilities.

Program Highlights

Department of Administration
Architecture and Engineering Program
Major Budget Highlights

- State special revenue increases $505,600, or 14.6 percent, from the 2009 to the 2011 biennium
  - Budget growth is nearly all due to statewide present law adjustments

Major LFD Issues

- Performance objectives could be strengthened

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goal for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

- o Present a single, comprehensive and prioritized plan for capital construction, repairs and alterations of state-owned facilities
    - Assist agencies in monitoring major repair and maintenance needs of state-owned facilities through the Long-range Building Program process
    - Advise the executive and legislative branches on adequate funding levels to maintain state facilities in reasonable condition

LFD ISSUE The objectives for this goal fail to include performance indicators or timing information that would allow the legislature to formulate an appropriations policy for this function and at a later date determine if the goal was attained. For example, does the funding levels in the budget support assessing all state buildings to identify and value major repair and maintenance needs every biennium and would the assessments be completed in time to use in the biennium budgeting processes? The legislature may want to engage the division in discussions that would allow the legislature to understand specifically what would be accomplished and how the effectiveness of the activities could be monitored so it can make sound appropriations policy decisions and know what the decisions are expected to accomplish.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table

Architecture & Engineering Pgm

Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000	Total State Special Funds	$ 1,679,954	100.0%	$ 1,985,889	100.0%	$ 1,994,739	100.0%
	02030 Arch & Engin Construction	1,679,954	100.0%	1,985,889	100.0%	1,994,739	100.0%
05000	Total	-	-	-	-	-	-
	05007 Long Range Building Program	-	-	-	-	-	-
Grand	Total	$ 1,679,954	100.0%	$ 1,985,889	100.0%	$ 1,994,739	100.0%

The Architecture & Engineering Program is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenses.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

Budget Item	General Fund Budget Fiscal 2010	General Fund Budget Fiscal 2011	General Fund Biennium Fiscal 10-11	General Fund Percent of Budget	Total Funds Budget Fiscal 2010	Total Funds Budget Fiscal 2011	Total Funds Biennium Fiscal 10-11	Total Funds Percent of Budget
Base Budget	0	0	0	0.00%	1,679,954	1,679,954	3,359,908	84.41%
Statewide PL Adjustments	0	0	0	0.00%	308,956	317,360	626,316	15.73%
Other PL Adjustments	0	0	0	0.00%	(3,550)	(3,033)	(6,583)	(0.17%)
New Proposals	0	0	0	0.00%	529	458	987	0.02%
Total Budget	**$0**	**$0**	**$0**		**$1,985,889**	**$1,994,739**	**$3,980,628**	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010 FTE	Fiscal 2010 General Fund	Fiscal 2010 State Special	Fiscal 2010 Federal Special	Fiscal 2010 Total Funds	Fiscal 2011 FTE	Fiscal 2011 General Fund	Fiscal 2011 State Special	Fiscal 2011 Federal Special	Fiscal 2011 Total Funds
Personal Services					304,519					308,417
Vacancy Savings					(52,772)					(52,930)
Inflation/Deflation					4,871					5,437
Fixed Costs					52,338					56,436
Total Statewide Present Law Adjustments					**$308,956**					**$317,360**
DP 106 - Allocate department indirect/admin costs	0.00	0	(3,550)	0	(3,550)	0.00	0	(3,033)	0	(3,033)
Total Other Present Law Adjustments	**0.00**	**$0**	**($3,550)**	**$0**	**($3,550)**	**0.00**	**$0**	**($3,033)**	**$0**	**($3,033)**
Grand Total All Present Law Adjustments					**$305,406**					**$314,327**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate**
  - The statewide personal services adjustment represents salaries for the division at an estimated 95 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 107 percent of market relative to the 2006 executive branch market survey
- **Vacancy**
  - The division has identified construction manager positions as an occupational group that poses difficulties in recruitment and retention and has determined these difficulties are due to outside market competition and job factors. Pay exceptions have been given for positions in this occupational group
- **Legislatively applied vacancy savings**
  - The office used normal turnover and when vacancies occurred, held positions open in order to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT

In terms of FTE-hours, the division experienced a 16.2 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority by 9.1 percent.

- **Pay Changes**
  - Pay increases given to division HB 2 funded staff were for the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature, market adjustments, and strategic pay adjustments for retention purposes

LFD COMMENT

Pay increases given outside of HB 13 funding included market adjustments and strategic pay adjustments. Of these, two also received market adjustments. The adjustments funded outside of HB were in addition to and 5.2 times the increases given in the 3.0 percent HB 13 pay adjustments.

- **Retirements**
  - The division anticipates seven employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium

LFD COMMENT The division was unable to estimate the unfunded compensated absence liability these seven employees would generate.

DP 106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals

Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
	------Fiscal 2010------					------Fiscal 2011------				
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation										
04	0.00	0	529	0	529	0.00	0	458	0	458
Total	**0.00**	**$0**	**$529**	**$0**	**$529 ***	**0.00**	**$0**	**$458**	**$0**	**$458 ***

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	11.25	11.25	11.25	11.25	11.25	11.25	0.00	0.00%
Personal Services	597,183	646,375	653,378	656,079	1,243,558	1,309,457	65,899	5.30%
Operating Expenses	1,895,135	2,033,154	2,068,457	2,097,394	3,928,289	4,165,851	237,562	6.05%
Transfers	0	0	200,000	200,000	0	400,000	400,000	n/a
Debt Service	32,050	32,050	32,050	32,050	64,100	64,100	0	0.00%
Total Costs	**$2,524,368**	**$2,711,579**	**$2,953,885**	**$2,985,523**	**$5,235,947**	**$5,939,408**	**$703,461**	**13.44%**
General Fund	2,471,442	2,614,645	2,899,127	2,930,834	5,086,087	5,829,961	743,874	14.63%
State Special	52,926	96,934	54,758	54,689	149,860	109,447	(40,413)	(26.97%)
Other	0	0	0	0	0	0	0	n/a
Total Funds	**$2,524,368**	**$2,711,579**	**$2,953,885**	**$2,985,523**	**$5,235,947**	**$5,939,408**	**$703,461**	**13.44%**

Program Description

The General Services Division is composed of four bureaus responsible for providing certain internal services to government agencies and the public.

The Facilities Management Bureau manages the following services for state agencies in the capitol complex and several state-owned buildings in the Helena area either directly or through the administration of service contracts: repair, maintenance, construction, energy consumption, disaster response and recovery, space allocation, lease negotiation, security, janitorial, recycling, pest control, grounds maintenance, and garbage collection.

The State Procurement Bureau procures or supervises the procurement of all supplies and services, and provides technical assistance to government agencies and the public to ensure compliance with the Montana Procurement Act. The bureau also manages the state's vehicle fueling, energy procurement, and procurement card programs.

The Print and Mail Services Bureau provides print and mail services to state agencies. Services include internal and external (contracted) printing, photocopy pool services, mail preparation, central mail operations, and inter-agency (deadhead)) mail. The bureau also operates the United States post office in the Capitol and provides three quick copy locations on the Capitol Complex.

The Property and Supply Bureau manages the central stores program and the state and federal surplus property programs.

Program Highlights

Department of Administration
General Services Program
Major Budget Highlights

- ♦ General fund increases nearly $744,000,or 14.6 percent, from the 2009 to the 2011 biennium and accounts for all of the growth
    - Statewide present law adjustment account for nearly all of the present law increases and half of the growth
    - $400,000 general fund to subsidize the Surplus Property Program accounts for the remaining growth

Major LFD Issues

- ♦ The proprietary funded Surplus Property Program is in a deficit position and revenues are not supporting expenses
- ♦ Performance objectives could be strengthened

Program Narrative

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goal for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

<u>State Procurement Bureau</u>

- Attract a larger pool of vendors to increase competition on bids and proposals
    - Design the division website to provide e-mail notification to interested vendors about state procurement opportunities

<u>Facilities Management Bureau</u>

- Promote energy conservation and green procurement on the capitol complex
    - Reduce the energy consumption on the capitol complex by 20 percent by the end of 2010

<u>Print and Mail Services Bureau</u>

- Promote cost effective print services products for state agencies to help them meet their program goals
    - Increase print-on-demand digital and variable data printing while continuing to provide traditional commercial printing in a timely and cost-effective basis
- Guide state agencies through the recent changes required by the US Postal Service (USPS) for “intelligent mail processing”
    - By the USPS deadline of May 1, 2009, upgrade our sorting/bar code equipment to meet the state “intelligent barcode standards” in order to continue to receive discounted postal rates from the USPS

<u>Property and Supply Bureau</u>

- Provide timely and cost effective office supplies, office equipment, and janitorial supplies to state agencies, with an emphasis on “green” products
    - Continue to promote the online vendor supply website functionally to all agencies to reduce costs and increase the amount of “green” products sold

LFD ISSUE

Specificity Missing in Objectives

Although some do, others of these objectives fail to specify what would be accomplished, how it would be measured, and when it would be measured to evaluate if progress is being made in the intended direction and at the levels expected. For example, the objective intended to provide timely and cost effective “green” office supplies is unclear as to how promoting website functionality would achieve the intended outcome and what indicators would be monitored to verify that the site promotion is influencing the buying behaviors of agencies.

The legislature may want to discuss what levels of “green” products agencies are currently purchasing, what specific changes in this consumption pattern the division intends to achieve with the budgeted funds, and how the division could restructure the objectives to provide time bound measures the legislature could use to monitor progress toward this objective. The legislature may wish to engage the division in similar discussions on the cost effective print services and larger vendor pool goals.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table
General Services Program

Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	$ 2,471,442	97.9%	$ 2,899,127	98.1%	$ 2,930,834	98.2%
	01100 General Fund	2,471,442	97.9%	2,899,127	98.1%	2,930,834	98.2%
02000	Total State Special Funds	52,926	2.1%	54,758	1.9%	54,689	1.8%
	02021 Work Comp Retention Return	-	-	-	-	-	-
	02211 Procurement Special Revenue	52,926	2.1%	54,758	1.9%	54,689	1.8%
06000	Total Proprietary Funds	-	-	-	-	-	-
	06528 Rent And Maintenance	-	-	-	-	-	-
	06561 Statewide Fueling Network	-	-	-	-	-	-
	06571 Procurement Card Purchases	-	-	-	-	-	-
Grand	Total	$ 2,524,368.00	100.0%	$ 2,953,885.00	100.0%	$ 2,985,523.00	100.0%

Base year funding for the General Services Division includes general fund, state special revenue, and proprietary funds. General fund provides funding for the Procurement Bureau and about $1.8 million for facilities maintenance. General fund supports facilities maintenance functions for common areas of the Capitol Building, office space for the Senate and House of Representatives, Governor's mansion, public display areas in the Historical Society Museum, and some office space in the museum building. State special revenue from procurement rebates fund portions of procurement functions.

The following programs are funded with proprietary funds and are not shown on the main budget tables but are discussed in the proprietary rates section for the division:

- o Print and mail services
- o Property and supply
- o Central stores
- o Facilities management
- o Surplus property

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	2,471,442	2,471,442	4,942,884	84.78%	2,524,368	2,524,368	5,048,736	85.00%
Statewide PL Adjustments	223,849	255,342	479,191	8.22%	224,331	255,737	480,068	8.08%
Other PL Adjustments	3,508	3,766	7,274	0.12%	4,836	5,115	9,951	0.17%
New Proposals	200,328	200,284	400,612	6.87%	200,350	200,303	400,653	6.75%
Total Budget	**$2,899,127**	**$2,930,834**	**$5,829,961**		**$2,953,885**	**$2,985,523**	**$5,939,408**	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010 FTE	Fiscal 2010 General Fund	Fiscal 2010 State Special	Fiscal 2010 Federal Special	Fiscal 2010 Total Funds	Fiscal 2011 FTE	Fiscal 2011 General Fund	Fiscal 2011 State Special	Fiscal 2011 Federal Special	Fiscal 2011 Total Funds
Personal Services					83,420					86,231
Vacancy Savings					(27,225)					(27,335)
Inflation/Deflation					130					154
Fixed Costs					168,006					196,687
Total Statewide Present Law Adjustments					**$224,331**					**$255,737**
DP 106 - Allocate department indirect/admin costs	0.00	3,508	1,328	0	4,836	0.00	3,766	1,349	0	5,115
Total Other Present Law Adjustments	**0.00**	**$3,508**	**$1,328**	**$0**	**$4,836**	**0.00**	**$3,766**	**$1,349**	**$0**	**$5,115**
Grand Total All Present Law Adjustments					**$229,167**					**$260,852**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate**
  - The statewide personal services adjustment represents salaries for the division at an estimated 92 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 101 percent of market relative to the 2006 executive branch market survey
- **Vacancy**
  - The division has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention
- **Legislatively Applied Vacancy Savings**
  - The division used normal turnover and when vacancies occur, held positions open in order to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT

In terms of FTE-hours, the division experienced a 5.4 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 6.8 percent.

- **Pay Changes**
  - Pay increases given to division HB 2 staff were for the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature as well as for market and competency pay adjustments outside of HB 13 funding to address market and retention issues on specific individuals
- **Retirements**
  - The division doesn’t anticipate any retirements in the 2011 biennium

DP 106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals

Program	Fiscal 2010 FTE	Fiscal 2010 General Fund	Fiscal 2010 State Special	Fiscal 2010 Federal Special	Fiscal 2010 Total Funds	Fiscal 2011 FTE	Fiscal 2011 General Fund	Fiscal 2011 State Special	Fiscal 2011 Federal Special	Fiscal 2011 Total Funds
DP 617 - Provide Support to the Surplus Property Program										
06	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation										
06	0.00	328	22	0	350	0.00	284	19	0	303
Total	**0.00**	**$200,328**	**$22**	**$0**	**$200,350 ***	**0.00**	**$200,284**	**$19**	**$0**	**$200,303 ***

DP 617 - Provide Support to the Surplus Property Program - An increase of $400,000 general fund for the biennium is requested to provide general fund support to the state Surplus Property Program.

LFD ISSUE Program is Not Self Supporting

The funding would subsidize the proprietary funded Surplus Property Program. The program has for seven of the last eight fiscal years operated at a loss, in which operating costs have exceeded operating revenues. The fund is now in a deficit position with liabilities exceeding assets. The program disposes of state property that has a useful life but is no longer needed by a state agency. The program disposes of the property via sale or donation to school districts. Proceeds from the sale of state property are deposited in the general fund, except when law otherwise prohibits it, and the proceeds are charged to a surplus property handling fee that operates the program. A more detailed discussion about the Surplus Property Program and options for addressing the program issues is contained in the proprietary rates section that follows.

The legislature has several options for addressing the immediate issues facing the Surplus Property Program. One of the options is presented in this request, to provide a general fund subsidy for the program. The legislature may wish to defer making a decision on this request until after it has determined how, or whether it will fund the Surplus Property Program. See the proprietary rates section for more information.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

Proprietary Program Description

The General Services Division provides the following functions funded with proprietary fund. These programs are described below along with a discussion of the program revenues, expenses, and rates being requested to finance the programs:

- Facilities Management (Rent and Maintenance)
- Print Services
- Mail Services

- o Surplus Property
- o Central Stores

Facilities Maintenance Bureau (Rent and Maintenance Fund - 06528)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Facilities Maintenance Bureau - Proposed Budget Table

Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	31.90	1.00	32.90	3.00	34.90
61000 Personal Services	$1,475,437	$259,976	$1,735,413	$373,609	$1,849,046
62000 Operating Expenses	6,780,263	434,533	7,214,796	1,025,719	7,805,982
63000 Equipment & Intangible Assets	56,008	(0)	56,008	(0)	56,008
Total Costs	$8,311,708	$694,509	$9,006,217	$1,399,328	$9,711,036

Proprietary Program Description

Rent and maintenance is managed by the Facilities Management Bureau, which is the custodian of state property and grounds in the state capitol area. The bureau provides facilities management assistance, including repair, maintenance, and construction services to state agencies in the Helena area and provides statewide leasing assistance to agencies to negotiate co-location of agencies to procure leased space for field offices. The bureau also manages the office waste paper products recycling program in the Helena area. The program serves all agencies and units within state government.

Funding

The following table shows estimated funding sources for payments made by users for the base and the 2011 biennium.

Estimated Funding of Payments to Facilities Maintenance Bureau

Item	Base	FY 2010 est.	FY 2011 est.
General Fund	$5,510,622	$5,792,456	$6,233,780
State Special Revenue	1,195,342	1,257,029	1,352,017
Federal Special Revenue	1,008,612	1,051,890	1,131,462
Proprietary	2,686,802	2,824,434	3,039,880
Other	65,593	69,068	74,353
Total Payments	$10,466,971	$10,994,878	$11,831,492

Program Narrative

Expenses

Significant costs for the program are for:

- o Personal services for 31.90 FTE, $1.5 million or 15 percent of total costs
- o Operating costs, $5.7 million with 69 percent of these costs due to:
  - Electricity, $1.3 million
  - Janitorial Services, $1.0 million
  - Caretaker Services/Other, $1.0 million
  - Repair and maintenance of buildings and grounds, $0.9 million

- Natural Gas, $0.7 million
- Security Protection, $0.5 million
- Insurance & Bonds, $0.3 million

Revenues

Revenues are derived from charges to all agencies for rent of office and warehouse space based on a square foot determination of occupancy. Revenues are collected for services of the program in the following proportions:

- Office and warehouse space 85 percent
- Grounds maintenance 4 percent
- Construction and handyman services 3 percent
- Recycling 1 percent
- Insurance proceeds (one time only) 7 percent

The figure for fund 06528 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06528	Rent and Maintenance	61010	Administration	General Services

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$1,517,694	$1,628,123	$1,735,413	$1,849,046
Other Operating Expenses	7,056,615	7,141,573	7,343,755	7,944,023
Total Operating Expenses	8,574,309	8,769,696	9,079,168	9,793,069
Operating Revenues:				
Revenue From Fees:				
Revenue from Office Rental Rate	9,320,829	9,720,379	10,028,463	10,807,865
Revenue from Warehouse Rental Rate	351,688	382,121	404,665	422,017
Revenue from Recycling Revenue	31,094	15,000	26,500	26,500
Revenue from Handyman Charges	75,386	65,000	11,100	11,100
Revenue from Project Work	231,049	80,000	27,500	27,500
Revenue from Grounds Maintenance	456,925	469,195	496,650	536,510
Total Revenue From Fees	10,466,971	10,731,695	10,994,878	11,831,492
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	0	0	0	0
Total Operating Revenue	10,466,971	10,731,695	10,994,878	11,831,492
Operating Gain (Loss)	1,892,662	1,961,999	1,915,710	2,038,423
Other Sources (Uses) (Note 1)	(317,916)	(2,738,385)	(1,913,895)	(1,942,596)
Net Assets as of July 1 (Beginning of Fiscal Y	316,295	1,923,435	1,147,049	1,148,864
Net Increase (Decrease) of Net Assets	1,574,746	(776,386)	1,815	95,827
Prior Period Adjustments	32,394	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$1,923,435	$1,147,049	$1,148,864	$1,244,691

Note 1 - Includes gain on sale of asset in FY 2008 ($4,740); nonoperating revenue in FY 2008 ($736,312); and capital projects transfers out of $1.1 million in FY 2008, $2.7 million in FY 2009, $1.9 million in FY 2010, and $1.9 million in FY 2011.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Facilities Maintenance Bureau - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$365,401	$376,180
DP 0106 Allocate department indirect/admin costs	36,649	38,515
DP 0603 FMB Contracted Services	214,683	232,219
DP 0604 FMB Utility (Water and Sewer) Expenditures	8,822	10,416
DP 0606 FMB Leasing Assistant	59,584	57,425
DP 0612 FMB wage increase for seasonal workers -grounds	8,374	8,625
DP 0615 Assume Maintenance Responsibility-St Fnd Bldg	0	226,003
DP 0616 Maintenance of New ITSD Enterprises Center - 1 FTE	0	449,083
Total Present Law Adjustments	$693,513	$1,398,466

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 603 - FMB Contracted Services – An increase of $447,000 proprietary funds is requested to fund increases in janitorial, access control, and fire alarm contracts due to inflationary factors associated with prevailing wages and petroleum prices expected when the contracts are rebid. The impacts of the request on the office rental rate are increases of $0.215 per square foot in FY 2010 and $0.232 per square foot in FY 2011.

DP 0604 - FMB Utility (Water and Sewer) Expenditures – An increase of $19,000 proprietary funds is requested to fund increases expected in water and sewer fees paid to the City of Helena. This request would increase the office rental rate by $0.009 per square foot in FY 2010 and $0.01 per square foot in FY 2011.

DP 0606 - FMB Leasing Assistant – An increase of $117,000 proprietary funds is requested to fund the addition of 1.00 FTE leasing assistant to assist the state leasing officer in the daily management of 1.6 million square feet of leases, 1.2 million square feet of state office space and over 360 contracts. This request would increase the office space rate by $0.052 per square foot in FY 2010 and by $0.049 per square foot in FY 2011.

DP 0612 - FMB Wage Increase for Seasonal Workers – Grounds – An increase of $17,000 proprietary funds is requested to increase pay for seasonal snow removal workers to address recruitment and retention issues due to current pay competition in the private sector. This request would increase the grounds maintenance charge by $0.009 per square foot in both FY 2010 and FY 2011.

DP 0615 - Assume Maintenance Responsibility-St Fnd Bldg – An increase of $226,000 proprietary funds is requested for FY 2011 to add 1.00 FTE to address workload increases for the addition of the old State Fund building after the State Fund moves to a new building in September 2010. On-going funding would be for personal services and operating costs (utilities, elevator maintenance, janitorial, mechanical, and sanitation services). One-time costs of $50,000 would fund new carpet and painting once the building is vacated. This request would increase the office rental rate by $0.189 per square foot in FY 2011.

LFD COMMENT The building the State Fund currently occupies is a state-owned building but a special leasing agreement is in place with the State Fund to lease the building for $1 per year with the State Fund responsible for paying all operating costs the program would normally pay, such as electricity, janitorial, and repair and maintenance. With the State Fund building a new building for its use, this building will revert back to the program to manage and lease to other state agencies. Costs to manage the building are not in the program's current rate structure.

DP 0616 - Maintenance of New ITSD Enterprises Center - 1 FTE – An increase of $449,000 proprietary funds in FY 2011 is requested for when the division assumes responsibilities for the facility management of the new enterprise data center building in the fall of 2010. Funding is for personal services to add 1.00 FTE and operating costs for electricity, natural gas, sewer and water, and contract costs for janitorial, mechanical, and sanitation services. This request would increase the office rental rate by $0.374 per square foot in FY 2011.

New Proposals

Facilities Maintenance Bureau - New Proposals

DP Name	FY 2010	FY 2011
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	$996	$862

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

Facilities Maintenance Bureau - Rates

Rate	Actual FY 2008	Budgeted FY 2009	Requested FY 2010	Requested FY 2011
Office (per square foot)	$8.179	$8.592	$8.869	$9.002
Storage (per square foot)	4.209	4.547	4.804	5.010
Grounds (per square foot)	0.496	0.508	0.541	0.543
Project management (In-house)	15%	15%	15%	15%
Project management (contracted)	5%	5%	5%	5%

Print & Mail Services Bureau (06530)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Print and Mail Internal Service - Proposed Budget Table

Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	40.80	0.00	40.80	0.00	40.80
61000 Personal Services	$1,381,411	$275,625	$1,657,036	$411,782	$1,793,193
62000 Operating Expenses	9,041,573	110,812	9,152,385	375,110	9,416,683
63000 Equipment & Intangible Ass	99,164	170,836	270,000	40,836	140,000
69000 Debt Service	24,662	119,166	143,828	119,166	143,828
Total Costs	$10,546,810	$676,439	$11,223,249	$946,894	$11,493,704

Proprietary Program Description

The Print and Mail Services Bureau provides printing, mail services, duplicating, desktop publishing, layout and design, graphic and illustrative art, forms design, reprographics, binding and quick copy, and photocopier pools services for state agencies. The bureau has seven basic components: 1) internal printing; 2) external (contracted) printing; 3) photocopy pool; 4) mail preparation; 5) central mail operations; 6) inter-agency (deadhead mail); and 7) postal contract station with locked mail boxes in the Capitol. Customers include all agencies and units within state government. Use of the photocopy pool is optional. A state agency may buy its own copier through the State Procurement Bureau. All printing or purchasing of printing is requested through print services, which determines the most cost effective method of project completion. Not all requests for printing are completed internally. Nearly 70 percent of printing expenditures are procured through commercial vendors. The Postal Contract Station provides mail services to the public.

Funding

The funding for payments made to the Print and Mail Services Bureau is not able to be determined without extensive manual work. If in the future the legislature wants to track the funding sources used to pay for services provided by the bureau, it may want to request the department establish a unique accounting code to record expenditures for services of the bureau.

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services for 40.80 FTE, $1.4 million or 13 percent of total costs
- Operating costs, $9.0 million with the following accounting for 92.7 percent of operating costs:
  - Postage and mailing $3.5 million
  - Printing, $3.3 million
  - Direct materials photo and reproduction, $0.8 million
  - Direct materials-recycled paper, $0.3 million
  - Photo copy equipment, $0.2 million
  - Rent-of DOA buildings, $0.2 million
  - Maintenance contracts, $0.1 million

Revenues

Revenue is received in the following percentages:

- Internal printing 16.05 percent (printing, duplicating, desktop publishing, binding and quick copy services, variable data printing and mainframe printing)
- External (contracted) printing 32.07 percent (printing procures printing through commercial vendors)
- Photocopy pool 8.71 percent (photocopiers to agencies contracted through the private sector)
- Mail preparation 4.95 percent (prepare documents for mailing including tabbing, labeling, inkjet addressing, inserting and bar coding)
- Central mail operations 35.90 percent (mail pick-up and delivery in agency offices, metering of out-going U.S. mail and express mail services)
- Inter-agency (deadhead mail) 1.96 percent (sorting and delivery of incoming mail and pickup and delivery of deadhead mail)
- Postal contract station 0.36 percent (the postal contract station located in the Capitol)

The figure for fund 06530 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06530	Print & Mail Services	61010	Administration	General Services

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$1,409,840	$1,709,491	$1,657,036	$1,793,193
Other Operating Expenses	9,411,289	9,071,662	9,566,220	9,700,519
Total Operating Expenses	10,821,129	10,781,153	11,223,256	11,493,712
Operating Revenues:				
Revenue From Fees				
Internal Printing	1,715,880	1,829,177	1,981,310	2,156,310
External Printing	3,427,515	3,427,515	3,422,836	3,422,836
Photocopy Pool	930,642	930,642	900,642	900,642
Mail Preparation	528,138	528,138	555,526	555,526
Mail Operations	3,836,751	3,836,751	3,997,960	4,136,360
Inter-agency (Deadhead Mail)	210,112	208,801	281,917	281,917
Postal Contract Station	38,976	38,976	38,976	38,976
Total Revenue From Fees	10,688,014	10,800,000	11,179,167	11,492,567
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	6	0	0	0
Total Operating Revenue	10,688,020	10,800,000	11,179,167	11,492,567
Operating Gain (Loss)	(133,109)	18,847	(44,089)	(1,145)
Other Sources (Uses) (Note 1)	(11,792)	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Y	1,974,666	1,829,567	1,848,414	1,804,325
Net Increase (Decrease) of Net Assets	(144,901)	18,847	(44,089)	(1,145)
Prior Period Adjustments	(198)	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$1,829,567	$1,848,414	$1,804,325	$1,803,180

Note 1 - Includes loss on sale of asset s in FY 2008

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Print and Mail - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$381,450	$503,950
DP 0106 Allocate Department Indirect/admin Costs	(13,604)	(12,485)
DP 0605 P/M Legislative Session Costs and Overtime	17,325	294,331
DP 0607 PrintMail Equipment Replacement	170,836	40,836
DP 0608 PrintMail High Speed Copier Lease	35,000	35,000
DP 0613 PrintMail Replace Mail Sort System	84,166	84,166
Total Present Law Adjustments	$675,173	$945,798

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 0605 - P/M Legislative Session costs and overtime – An increase of $311,700 proprietary funds to fund overtime and operating costs to operate the legislative print shop in support of the 2011 legislative session. Funding also addresses mailings in support of the session. This request would have no impact on rates.

DP 0607 - PrintMail Equipment Replacement – An increase of $211,700 proprietary funds is requested to replace the following equipment:

- Quickmaster press in FY 2010, $70,000
- Inserter in FY 2010, $200,000
- Computer-to-plate plate maker in FY 2011, $85,000
- Pressure sealer in FY 2011, $55,000

The rate impacts of this request are shown on the figure that follows the DP 608 description.

DP 0608 - PrintMail High Speed Copier Lease – An increase of $70,000 proprietary funds is requested for a five year operating lease of a high speed copier. The copier would replace two obsolete duplicators. The request would result in an increase in duplicating rates shown on the following figure.

DP 0613 – Print Mail replace mail sort system – An increase of $168,300 proprietary funds is requested to replace the mail sorting system. The request would result in an increase in winsort and permit mailing rates of $0.009 per mail piece in each year of the 2011 biennium.

LFD COMMENT

Mail Services acts as a partner with the USPS by completing the sort and barcode process for mail distribution. By completing the process for the Helena Post Office, it requires no further processing by the Helena Post Office and the state receives a discount on the postage for automated mail. Replacement costs are estimated at $450,000 but the equipment would be purchased on an installment plan over seven years with interest at 8 percent.

New Proposals

Print and Mail Internal Services Program - New Proposals		
DP Name	FY 2010	FY 2011
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	$1,266	$1,096

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

Print and Mail Services - Rates

Printing

Fee Group	FY 2008 Actual	FY 2009 Budgeted	FY 2010 Requested	FY 2011 Requested
Internal Printing				
Impression cost:				
1-20	$0.0625	$0.0625	$0.0762	$0.0762
21-100	0.0276	0.0276	0.0336	0.0336
101-1000	0.0159	0.0159	0.0193	0.0193
1001-5000	0.0064	0.0064	0.0078	0.0078
5000 +	0.0032	0.0032	0.0039	0.0039
Color Copy				
8 1/2 x 11	0.19	0.19	0.25	0.25
11 x 17	0.38	0.38	0.50	0.50
Ink - Black per sheet			0.0002	0.0002
Ink - Color			15.00	15.00
Ink - Special mix			25.00	25.00
Ink - Large format color (per foot)	12.00	12.00	12.70	12.70
Collating machine	0.0064	0.0064	0.0072	0.0072
Collating hand	0.5300	0.5300	0.6000	0.6000
Stapling hand	0.0159	0.0159	0.0180	0.0180
Stapling in-line	0.0106	0.0106	0.0120	0.0120
Saddle stitch	0.0318	0.0318	0.0360	0.0360
Folding (base + per sheet)	10.60 + .0053	10.60 + .0053	12.00 + .006	12.00 + .006
Folding right angle (base + per shee	10.60 + .0053	10.60 + .0053	12.00 + .006	12.00 + .006
Folding in-line	0.0318	0.0318	0.036	0.036
Punching standard 3 hole	0.00106	0.00106	0.0012	0.0012
Punching non-standard (base + per	3.18 + .00106	3.18 + .00106	3.60 + .0012	3.60 + .0012
Cutting	0.583	0.583	0.66	0.66
Padding	0.00212	0.00212	0.0024	0.0024
Scoring, perforating, numbering	.30 + Dup Rate	.30 + Dup Rate	.00 + Dup Rate	.00 + Dup Rate
Perfect binding	15.90 + 0.583	15.90 + 0.583	18.00 + 0.66	18.00 + 0.66
Spirial binding			0.69	0.69
Laminating:				
8 1/2 x 11	0.50	0.50	0.57	0.57
11 x 17	0.75	0.75	0.85	0.85
Tape binding	0.53	0.53	0.60	0.60
Tabs	0.53	0.53	0.60	0.60
Transparencies	0.53	0.53	0.60	0.60
Shrink wrapping	0.27	0.27	0.30	0.30
Hand work production	0.53	0.53	0.60	0.60
Overtime	20.00	20.00	22.15	22.15
Desktop	38.16	38.16	46.36	46.36
Scan	9.00	9.00	9.52	9.52
Proof	0.25	0.25	0.25	0.25
Programming	40.00	40.00	45.46	45.46
File transfer	0.00	0.00	22.73	22.73
Varible data	0.008	0.008	0.009	0.009
CD duplicating	0.00	0.00	1.75	1.75
DVD duplicating	0.00	0.00	3.50	3.50
Silver plates:				
8.5x11	8.48	8.48	9.20	9.20
11x17	9.54	9.54	10.35	10.35
CTP plates:				
8.5x11	8.48	8.48	9.20	9.20
11x17	9.54	9.54	10.35	10.35
External Printing				
Markup (percent of invoice)	6.36	6.36	6.73	6.73

Print and Mail Services - Rates
Photocopy Pool

Fee Group	FY 2008 Actual	FY 2009 Budgeted	FY 2010 Requested	FY 2011 Requested
Markup (percent of invoice)	$0.00	$0.00	$15.90	$15.90
Level 1 (monthly copier charge)	34.77	34.77	N/A	N/A
Level 2 (monthly copier charge)	115.40	115.40	N/A	N/A
Level 3 (monthly copier charge)	201.22	201.22	N/A	N/A
Level 4 (monthly copier charge)	250.93	250.93	N/A	N/A
Level 5 (monthly copier charge)	381.34	381.34	N/A	N/A
Level 6 (monthly copier charge)	526.70	526.70	N/A	N/A
Level 7 (monthly copier charge)	615.78	615.78	N/A	N/A
Digital copiers optional features:				
Level 1 - Print cost per page	0.0146	0.0146	N/A	N/A
Level 1 - Fax cost per page	0.0146	0.0146	N/A	N/A
Level 1 - Print option	18.29	18.29	N/A	N/A
Level 1 - Fax option	14.63	14.63	N/A	N/A
Level 2 - Print cost per page	0.0146	0.0146	N/A	N/A
Level 2 - Print option	14.63	14.63	N/A	N/A
Level 2 - Fax cost per page	0.0146	0.0146	N/A	N/A
Level 2 - Fax option	21.94	21.94	N/A	N/A
Level 2 - Scan option	14.63	14.63	N/A	N/A
Level 3 - Print cost per page	0.0146	0.0146	N/A	N/A
Level 3 - Print option	28.65	28.65	N/A	N/A
Level 3 - Fax cost per page	0.0146	0.0146	N/A	N/A
Level 3 - Fax option	23.16	23.16	N/A	N/A
Level 3 - Scan option	24.38	24.38	N/A	N/A
Level 4 - Print cost per page	0.0146	0.0146	N/A	N/A
Level 4 - Print option	28.65	28.65	N/A	N/A
Level 4 - Fax cost per page	0.0146	0.0146	N/A	N/A
Level 4 - Fax option	23.16	23.16	N/A	N/A
Level 4 - Scan option	24.38	24.38	N/A	N/A
Level 5 - Print cost per page	0.0146	0.0146	N/A	N/A
Level 5 - Print option	32.31	32.31	N/A	N/A
Level 5 - Fax cost per page	0.0146	0.0146	N/A	N/A
Level 5 - Fax option	23.16	23.16	N/A	N/A
Level 5 - Scan option	32.31	32.31	N/A	N/A
Level 6 - Print cost per page	0.0146	0.0146	N/A	N/A
Level 6 - Print option	32.31	32.31	N/A	N/A
Level 6 - Fax cost per page	0.0146	0.0146	N/A	N/A
Level 6 - Fax option	23.16	23.16	N/A	N/A
Level 6 - Scan option	32.31	32.31	N/A	N/A
Level 7 - Print cost per page	0.0146	0.0146	N/A	N/A
Level 7 - Print option	32.31	32.31	N/A	N/A
Level 7 - Fax cost per page	0.0146	0.0146	N/A	N/A
Level 7 - Fax option	23.16	23.16	N/A	N/A
Level 7 - Scan option	32.31	32.31	N/A	N/A

Print and Mail Services - Rates

Mail

Fee Group	FY 2008 Actual	FY 2009 Budgeted	FY 2010 Requested	FY 2011 Requested
Mail Preparation				
Tabbing	0.0106	0.0106	0.021	0.021
Labeling	0.0106	0.0106	0.021	0.021
Ink jet	0.0318	0.0318	0.034	0.034
Inserting	0.0106	0.0106	0.030	0.030
Winsort	0.053	0.053	0.062	0.062
Permit mailings	0.053	0.053	0.062	0.062
Mail Operations				
Machinable (each)	0.037	0.037	0.043	0.043
Non-machinable (each)	0.069	0.069	0.080	0.080
Seal only (each)	N/A	N/A	0.020	0.020
Post cards (each)	0.042	0.042	0.049	0.049
Certified mail (each)	0.530	0.530	0.614	0.614
Registered mail (each)	0.530	0.530	0.614	0.614
International mail (each)	0.318	0.318	0.400	0.400
Flats (each)	0.095	0.095	0.110	0.110
Priority (each)	0.530	0.530	0.614	0.614
Express mail (each)	0.530	0.530	0.614	0.614
USPS parcels (each)	0.265	0.265	0.400	0.400
Insured mail (each)	0.530	0.530	0.614	0.614
Media mail (each)	0.265	0.265	0.307	0.307
Standard mail (each)	0.159	0.159	0.200	0.200
Postage due (each)	0.053	0.053	0.061	0.061
Fee due (each)	0.053	0.053	0.061	0.061
Tapes (each)	0.212	0.212	0.245	0.245
Express services (each)	0.265	0.265	0.500	0.500
Inter-agency Mail				
Dollars-yearly	210,112	208,801	281,917	281,917
Postal Contract (Capitol Building)				
Dollars-yearly	38,976	38,976	38,976	38,976

Central Stores Program (Fund 06531)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Central Stores Internal Service - Proposed Budget Table

Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	11.75	0.00	11.75	0.00	11.75
61000 Personal Services	$387,719	$125,832	$513,551	$128,378	$516,097
62000 Operating Expenses	4,515,909	20,275	4,536,184	16,931	4,532,840
63000 Equipment & Intangible Ass	0	15,000	15,000	0	0
Total Costs	$4,903,628	$161,107	$5,064,735	$145,309	$5,048,937

Proprietary Program Description

The Central Stores program contracts with a large warehouse distribution center to provide on-line ordering for office supplies. The program develops standard specifications, procures, warehouses, and delivers commonly used items to all state agencies and participating local governments. Customers include all agencies and units within state government and participating local governments.

Section 18-4-302(3), MCA, mandates state agencies to use central stores unless the publicly advertised price of an alternate supplier, established catalog price, or discount price offered to the agency is less than the price offered by the stores program, as long as the office supply conforms in all material respects to the terms, conditions, and quality offered by the stores program. Local governments and university system employees are not mandated to use central stores.

Funding

The following table shows estimated funding sources for payments made by users for the base and the 2011 biennium.

Estimated Funding for Payments to Central Stores

Item	Base	FY 2010 est.	FY 2011 est.
General Fund	$117,701	$117,830	$117,830
State Special Revenue	62,210	62,278	62,278
Federal Special Revenue	4,704,849	4,710,015	4,710,015
Proprietary	37,361	37,402	37,402
Other	72,395	72,474	72,474
Total Payments	$4,994,516	$5,000,000	$5,000,000

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services for 11.75 FTE, $388,000 or 8.0 percent of total costs
- Operating costs, $4.5 million with the following expense items purchased for resale to agencies accounting for 88 percent of operating costs:
  - Office supplies, $2.4 million
  - Fine paper stock, $0.8 million
  - Janitorial supplies, $0.4 million
  - Coarse paper, $0.3 million

Revenues

Revenues are derived from charges to state agencies and local government customers for the supplies they order plus the markup rate for covering administration of the program.

The figure for fund 06531 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06531	Central Stores	61010	Administration	General Services

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$394,391	$508,696	$513,551	$516,097
Other Operating Expenses	4,631,758	4,117,345	4,551,544	4,533,244
Total Operating Expenses	5,026,149	4,626,041	5,065,095	5,049,341
Operating Revenues:				
Revenue From Fees	4,994,516	5,000,000	5,000,000	5,000,000
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	6	0	0	0
Total Operating Revenue	4,994,522	5,000,000	5,000,000	5,000,000
Operating Gain (Loss)	(31,627)	373,959	(65,095)	(49,341)
Other Sources (Uses)	0	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Year)	804,332	772,869	1,146,828	1,081,733
Net Increase (Decrease) of Net Assets	(31,627)	373,959	(65,095)	(49,341)
Prior Period Adjustments	164	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$772,869	$1,146,828	$1,081,733	$1,032,392

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Central Stores - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$140,414	$139,317
DP 0106 Allocate department indirect/admin c	5,334	5,681
DP 0614 Central Stores Vehicle Replacement	15,000	0
Total Present Law Adjustments	$160,748	$144,998

<u>DP 0106 - Allocate department indirect/admin costs -</u> An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 0614 - Central Stores Vehicle Replacement – An increase of $15,000 proprietary funds is requested for FY 2010 to replace a passenger car used to make daily deposits to the state treasure's office and other trips to agency offices. The request would not have an impact on the rates charged by the program.

New Proposals

Central Stores Internal Services Program - New Proposals		
DP Name	FY 2010	FY 2011
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	$359	$311

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

The Central Stores program request a 25 percent markup on sales of items sold as the rate for the program in the 2011 biennium. The requested rate is the same as the rate approved by the legislature for each year of the 2009 biennium.

Surplus Property Program (Fund 06066)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Surplus Property Enterprise Fund - Proposed Budget Table					
		FY 2010	FY 2010	FY 2011	FY 2011
Account Name	Actual Base	Adjustments	Total	Adjustments	Total
FTE	6.40	0.00	6.40	(2.00)	4.40
61000 Personal Services	$224,120	$6,451	$230,571	$7,818	$231,938
62000 Operating Expenses	99,468	9,541	109,009	9,195	108,663
63000 Equipment & Intangible Ass	14,000	51,000	65,000	0	14,000
Total Costs	$337,588	$66,992	$404,580	$17,013	$354,601

Proprietary Program Description

The Property and Supply Bureau operates the surplus property program to administer the sale of state and federal surplus property no longer needed by agencies. The federal surplus program acquires surplus property from federal agencies. This property is distributed to state agencies or other eligible organizations. The surplus property programs provide a mechanism to transfer surplus property between agencies and extend the life of state property. The program provides accountability in the disposal of surplus state property, provides agencies with a service to collect surplus equipment, and provides an in-state screening service to locate federal surplus property for state agencies and local governments.

Program Narrative

Expenses

Significant costs for the program are for personal services for 6.40 FTE, which comprises $224,000 or 66 percent of total costs.

Revenues

Revenues are derived from the following handling fees:

- o Property is sold for less than $500, the program retains the proceeds
- o Property sold for $500 or more the program retains $500 plus unusual expenses
- o Federal Surplus Property program fees are an allocation of freight expense and 14 percent of acquisition cost

The figure for fund 06066 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06066	Surplus	61010	Administration	General Services

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$230,381	$230,571	$230,571	$231,938
Other Operating Expenses	125,996	126,000	174,199	122,876
Inventory Adjustment*	297,411	235,431	326,000	326,000
Total Operating Expenses	653,788	592,002	730,770	680,814
Operating Revenues:				
Revenue From Fees				
State Surplus Property Handling Fee	297,145	297,000	297,000	297,000
Federal Surplus Property Handling Fee	12,082	12,000	12,000	12,000
Misc. Revenue	0	0	200,000	200,000
Total Revenue From Fees	309,227	309,000	509,000	509,000
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	0	0	0	0
Total Operating Revenue	309,227	309,000	509,000	509,000
Operating Gain (Loss)	(344,561)	(283,002)	(221,770)	(171,814)
Other Sources (Uses) (Note 1)	321,313	235,431	326,000	326,000
Net Assets as of July 1 (Beginning of Fiscal Year)	(17,607)	(40,855)	(88,426)	15,804
Net Increase (Decrease) of Net Assets	(23,248)	(47,571)	104,230	154,186
Prior Period Adjustments	0	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	($40,855)	($88,426)	$15,804	$169,990

Note 1 - Includes loss on sale of assets in FY 2008 ($4,865) and contributed capital in all years.
* Inventory adjustment is a non-budgeted, non-cash expenditure. Contributed Capital is a non-budgeted, non-cash revenue.

LFD ISSUE

Program is Not Self Supporting

Statutory Requirement

Montana statute states in 18-5-203, MCA, that the state agency for surplus property must be self-sustaining and shall pay for its operation and maintenance directly from receipts from surplus property that must be deposited in the treasury in an enterprise fund. The above report for the enterprise fund shows that the program is not self sustaining and not able to pay for its operations and maintenance directly from receipts from surplus property.

Declining Financial Health

The surplus property program is a form of recycling program that disposes of equipment that is no longer useful to agencies via sale or donation to local governments and school districts. The program has suffered for years with rising costs and fluctuating, but generally declining revenues. A key source of revenues that once made the program financially viable is the revenues collected from the federal government for disposal of federal surplus. These federal surplus revenues exceeded $200,000 in and before FY 2003, but have declined to just over $10,000 annually.

The executive states that the volume of surplus items available to the program has declined from a level that once supported two auctions per year, but now only supports one. Many of the costs for the program are fixed or not related to the volume of surplus handled. These fixed costs are for items such as personal services, building rent, utilities, telephone, and other overhead costs paid to other service provider programs. The program has for seven of the last eight fiscal years operated at a loss, in which operating costs have exceeded operating revenues. The fund is now in a deficit position with liabilities exceeding assets and expenses exceeding revenues.

Legislative Options

Given the poor financial condition of the program, the legislature may wish to consider various options.

<u>Keep the Program or Eliminate It</u>

First is whether the legislature wants to continue the program or eliminate it and place the burden of disposing of agency assets back on the agencies. If the legislature wants to eliminate the program, it would need to amend the statutes that designate the duties to the department. When considering these alternatives, the legislature may want to discuss the following with the executive:

- What impacts would eliminating this service have on state agencies of whose equipment the program currently disposes?
- If the program was eliminated would the impacts affect all agencies equally?
- What economies of scale does providing the program centrally offer that would otherwise be lost if the program were eliminated, and what would be the estimated cost shifts to agencies if it were eliminated?
- What asset control and accountability issues would result from eliminating the program?
- How would eliminating the program impact local governments and school districts?
- How is it in the best interest of the state to continue the Surplus Property Program?

<u>Keep Program</u>

If the legislature wants to keep the program, it may want to consider either directing the executive to live within its means without supplementing the program with outside revenues. Or it may want to provide supplemental funding to support the program.

Live Within its Means – As stated above, state law states that the program must be self-supporting. The legislature may want to discuss with the executive ways it could reduce the expenditures of the program to return it to being self-supporting. For this, the legislature may want to discuss the following:

- Could its operations be reduced in hours of operation and size of warehouse space to reflect the lower volume of surplus property being run through the program? If so, what would the impacts be on program funding and agencies?

LFD ISSUE (Cont.)

Could the scope of equipment being handled by the program be limited to certain equipment types? If so, what equipment and why does it justify continuation of the program? What would the impacts be on program funding and agencies?

Supplement Program Funding – The executive in DP 617 - Provide Support to the Surplus Property Program in the HB 2 portion of the division's budget proposes subsidizing the program with $200,000 general fund per year. If the legislature wants to supplement the funding for the program it could provide the supplemental funding as ongoing or one time and place conditions on the program to provide an analysis or report to the next legislature to continue the supplemental funding.

DP 617 would provide ongoing general fund support for the program without conditions. The legislature may want to designate the funding in DP 617 as one time and discuss with the program a goal and objectives it would use to measure, monitor, and report on how the funding impacted the administration of state surplus property. The legislature could use the outcomes reported for the goal and objectives to evaluate continuation of supplemental funding for the program.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Surplus Properties - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$85,375	$86,378
DP 0106 Allocate department indirect/admin costs	$2,397	$2,553
DP 0609 PSB replacement of equipment	51,000	0
Total Present Law Adjustments	$138,772	$88,931

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 0609 - PSB replacement of equipment – An increase of $51,000 proprietary funds would fund the purchase of the replacement equipment in FY 2011 that are near the end of their useful lives. Replaced would be one forklift ($5,000), one flatbed trailer ($6,000), and on heavy duty truck to pickup surplus products ($40,000).

New Proposals

Surplus Properties - New Proposals

DP Name	FY 2010	FY 2011
DP 0618 Transfer FTE to Director's Office	($71,985)	($72,096)
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	205	178
Total New Proposals	($71,780)	($71,918)

DP 0618 - Transfer FTE to Director's Office – A reduction of $144,000 proprietary funds is proposed to move 1.00 FTE to the Director's Office and 1.00 FTE to the Health Care and Benefits Division. Positions that would be moved are positions that have remained vacant.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

The Surplus Property Program is funded with an enterprise type proprietary fund. As such the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund. The rates that fund the program are identified in the Program Narrative section under the Revenue heading.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	9.00	9.00	9.00	9.00	9.00	9.00	0.00	0.00%
Personal Services	606,966	887,472	692,948	694,465	1,494,438	1,387,413	(107,025)	(7.16%)
Operating Expenses	613,832	955,527	2,642,268	639,954	1,569,359	3,282,222	1,712,863	109.14%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Grants	608,576	860,530	608,576	608,576	1,469,106	1,217,152	(251,954)	(17.15%)
Total Costs	**$1,829,374**	**$2,703,529**	**$3,943,792**	**$1,942,995**	**$4,532,903**	**$5,886,787**	**$1,353,884**	**29.87%**
General Fund	734,366	759,830	2,542,150	542,276	1,494,196	3,084,426	1,590,230	106.43%
State Special	831,876	1,406,831	1,138,510	1,137,587	2,238,707	2,276,097	37,390	1.67%
Federal Special	263,132	536,868	263,132	263,132	800,000	526,264	(273,736)	(34.22%)
Total Funds	**$1,829,374**	**$2,703,529**	**$3,943,792**	**$1,942,995**	**$4,532,903**	**$5,886,787**	**$1,353,884**	**29.87%**

Program Description

Information Technology Services Division (ITSD) is a proprietary program that manages central computing and telecommunications services for state government. ITSD provides central mainframe and mid-tier computer services, and manages the statewide data network SummitNet, used by all agencies located throughout the state. ITSD provides local and long distance telephone network services used by all agencies, including the university system, and manages the state's video network. ITSD coordinates electronic government services for the state, and manages the states Internet presence mt.gov. ITSD also manages the Continuity of Operations (COOP), Security, Architecture and IT PM Enterprise Offices.

The division coordinates Geographic Information Systems (GIS) development, and manages the Public Safety Services Office that includes the state's 911 and public safety radio programs. These programs are funded by state special, federal special and general funds.

Through the office of the Chief Information Officer, the division develops the Statewide Strategic IT Plan, coordinates information technology (IT) for the state, and reviews and approves IT acquisitions. The division also provides statewide IT training, and establishes hardware, software, and consulting services contracts used by agencies.

Program Highlights

Department of Administration
Information Technology Services Division
Major Budget Highlights

- General fund increases $1.6 million, or 106 percent, from the 2009 to the 2011 biennium
  - Funding for a high performance computer center in Butte adds $2.0 million of one time general fund and accounts for all the growth for the HB 2 portion of the division

Major LFD Issues

- Costs associated with general fund for a high performance computer center in Butte are unspecified and undocumented
- Rates requesting a working capital reserve are requested
- Performance objectives could be strengthened

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following are goals for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program:

- Develop information technology (IT) resources in an organized, deliberative, and costs-effective manner
    - Implement best practices
    - Implement new technologies
    - Provide stable funding
    - Implement workforce planning development plan
- Protect individual privacy and the privacy of information contained within information technology systems
    - Improve enterprise security and identity management
- Improve government services
    - Expand eGovernment services
    - Expand geographic information technology services
    - Expand business continuity and disaster recovery planning

LFD ISSUE

The objective statements are only restatements of the statutory policy statements for information technology. The objectives lack specificity and are not time bound or specific to what performance would be measured, what indicators or when would it allow the legislature to determine if appropriations policies were achieved. The objectives provided would not enable the legislature to establish appropriations policy for this program. In particular, what actions would be done and when would they be done to improve enterprise security and identity management? How would progress being made in these areas be determined and assessed to evaluate if the funding provided for the effort was achieving the outcomes intended in the time they are intended?

The legislature may want to discuss what specifics the division intends to accomplish with the budget and how it would measure and monitor the effectiveness of its efforts toward attainment of the objectives. For example, how has expanded geographic information technology services improved government services and what measures are in place to monitor the return on investing in the expansion of these services?

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table
Information Tech Serv Division

Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	$ 734,366	40.1%	$ 2,542,150	64.5%	$ 542,276	27.9%
	01100 General Fund	734,366	40.1%	2,542,150	64.5%	542,276	27.9%
02000	Total State Special Funds	831,876	45.5%	1,138,510	28.9%	1,137,587	58.5%
	02105 Basic 9-1-1 Emrgncy Phone Prog	-	-	275,418	7.0%	275,269	14.2%
	02779 Montana Land Information	831,876	45.5%	863,092	21.9%	862,318	44.4%
03000	Total Federal Special Funds	263,132	14.4%	263,132	6.7%	263,132	13.5%
	03462 Gis-Homeland Security Grant	263,132	14.4%	263,132	6.7%	263,132	13.5%
Grand	Total	$ 1,829,374	100.0%	$ 3,943,792	100.0%	$ 1,942,995	100.0%

Funding for the division is provided primarily with a proprietary fund that is not shown on the main budget tables, but is discussed in the proprietary rates section that follows the discussion of budget program activity. The HB 2 budgeted portion of the division is funded with general fund, state special revenue, and federal special revenue. The division receives general fund to administer the statewide 911 emergency telephone program and the Public Safety Services Office. Federal special revenue funds a portion of the GIS coordination work within the division and until the 2009 biennium a portion of the Public Safety Services Office. State special revenue funds the remaining portion of the GIS coordination work with funding derived from land transaction fees under the Montana Land Information Act.

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

Budget Item	General Fund Budget Fiscal 2010	General Fund Budget Fiscal 2011	General Fund Biennium Fiscal 10-11	General Fund Percent of Budget	Total Funds Budget Fiscal 2010	Total Funds Budget Fiscal 2011	Total Funds Biennium Fiscal 10-11	Total Funds Percent of Budget
Base Budget	734,366	734,366	1,468,732	47.62%	1,829,374	1,829,374	3,658,748	62.15%
Statewide PL Adjustments	84,778	84,306	169,084	5.48%	102,902	101,223	204,125	3.47%
Other PL Adjustments	(904)	(599)	(1,503)	(0.05%)	11,126	12,060	23,186	0.39%
New Proposals	1,723,910	(275,797)	1,448,113	46.95%	2,000,390	338	2,000,728	33.99%
Total Budget	**$2,542,150**	**$542,276**	**$3,084,426**		**$3,943,792**	**$1,942,995**	**$5,886,787**	

Present Law Adjustments
The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments

	Fiscal 2010 FTE	Fiscal 2010 General Fund	Fiscal 2010 State Special	Fiscal 2010 Federal Special	Fiscal 2010 Total Funds	Fiscal 2011 FTE	Fiscal 2011 General Fund	Fiscal 2011 State Special	Fiscal 2011 Federal Special	Fiscal 2011 Total Funds
Personal Services					114,854					116,435
Vacancy Savings					(28,872)					(28,936)
Inflation/Deflation					1,453					1,636
Fixed Costs					15,467					12,088
Total Statewide Present Law Adjustments					**$102,902**					**$101,223**
DP 106 - Allocate department indirect/admin costs	0.00	(904)	12,030	0	11,126	0.00	(599)	12,659	0	12,060
Total Other Present Law Adjustments	**0.00**	**($904)**	**$12,030**	**$0**	**$11,126**	**0.00**	**($599)**	**$12,659**	**$0**	**$12,060**
Grand Total All Present Law Adjustments					**$114,028**					**$113,283**

Program Personal Services Narrative
The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate**
  - The statewide personal services adjustment represents salaries for the division at an estimated 99 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 102 percent of market relative to the 2006 executive branch market survey
- **Vacancy**
  - No occupational groups were identified that provide recruitment or retention challenges for the division and high turnover is not a problem in this division

- **Legislatively applied vacancy savings**
  - The division used normal turnover in order to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT In terms of FTE-hours, the division experienced a 24.8 percent vacancy rate in HB 2 funded positions. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 31.5 percent.

- **Pay Changes**
  - Pay increases given to division HB 2 staff were for the 3.0 percent fixed increases funded in HB 13 of the 2007 Legislature, strategic pay adjustments for retention purposes, and market adjustments to improve internal pay equity and bring staff to current market percentage

LFD COMMENT Pay increases given outside of HB 13 funding included market adjustments and strategic pay adjustments. The adjustments funded outside of HB 13 were in addition to and 2.4 times the increases given in the 3.0 percent HB 13 pay adjustments.

- **Retirements**
  - The division anticipates no retirements in the 2011 biennium

DP 106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals										
	Fiscal 2010					Fiscal 2011				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation										
07	0.00	150	240	0	390	0.00	130	208	0	338
DP 6102 - Move 911 Funds from General Fund to SSR (Requires Legislation)										
07	0.00	(276,240)	276,240	0	0	0.00	(275,927)	275,927	0	0
DP 6109 - High Performance Computing Operations - Bien/OTO										
07	0.00	2,000,000	0	0	2,000,000	0.00	0	0	0	0
Total	**0.00**	**$1,723,910**	**$276,480**	**$0**	**$2,000,390 ***	**0.00**	**($275,797)**	**$276,135**	**$0**	**$338 ***

<u>DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation -</u> The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

<u>DP 6102 - Move 911 Funds from General Fund to SSR (Requires Legislation) -</u> A funding switch is proposed that would move administrative 911 funds from general fund to state special revenue. Funds would be used to distribute funds to Public Safety Answering Point (PSAP).

LFD ISSUE

Proposed Legislation

This request would equally reduce general fund and increase state special revenue in the following amounts:

- $276,240 in FY 2010
- $275,927 in FY 2011

Legislation, in LC 0250, is proposed that would distribute funds currently deposited in the general fund to a special revenue fund for the administration of the 911 Program. Any remaining funds at the end of a fiscal year in the special revenue account would be divided equally among four 911 accounts and distributed to the local 911 jurisdictions.

The legislation and funding switch came out of a Legislative Audit Division recommendation in a 2007 performance audit of the 911 program (07P-12). The audit stated:

> Section 10-4-301, MCA, requires 3.74 percent of surcharge revenues be deposited in the state general fund to pay for program administration costs. However, the department has kept program costs to about 2.3 percent of total program revenues. The remainder of the designated administrative funds coming from surcharge revenues stay in the general fund. At present, program funds deposited in the general fund but not used for administering the 911 program are used to pay for other state government costs and cannot be transferred into special revenue accounts for distribution to county governments for local 911 systems.

The audit recommended that the legislature revise state law to ensure all 9-1-1 surcharge revenues are only used for 911 system development and operations.

<u>DP 6109 - High Performance Computing Operations - Bien/OTO -</u> An increase of $2.0 million general fund in FY 2010 is requested to fund a lease in the Thorton Building in Butte and startup and operating costs to run a high performance computer. The executive recommends the legislature designate funding for this request as biennial and one time only.

LFD ISSUE

What Outcomes are Expected?

The 2007 Legislature funded a market feasibility study for a super computer center. As of this writing, the results of the study have not been made available to staff. The request provides startup funding for a supercomputing center to be located in Butte in an existing building that was previously occupied by a telecommunications company and which has direct access to available fiber optic capacity for transmitting electronic data. The center would be run by a not-for-profit corporation with a board of directors comprised of government, academic, and private sector members.

Given the limited available data on the funding request staff was not able to fully analyze this request and is still researching details. However, the legislature may want to discuss the following with the executive:

- How will the state benefit from funding the startup of this business venture
- How will these benefits be determined, measured, and reported
- How many jobs would be created and at what wage levels would jobs provide
- What level of customer commitment has been secured to fund future costs for the center
- Does the state expect to see a direct return on this investment or would the return be in indirect economic development benefits

Proprietary Rates

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

ISD Proprietary Internal Service - Proposed Budget Table

Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	174.50	0.00	174.50	0.00	174.50
61000 Personal Services	$13,136,052	$118,563	$13,254,615	$160,556	$13,296,608
62000 Operating Expenses	21,185,000	3,073,778	24,258,778	3,661,167	24,846,167
63000 Equipment & Intangible Ass	2,237,192	(0)	2,237,192	(0)	2,237,192
Total Costs	$36,558,244	$3,192,341	$39,750,585	$3,821,723	$40,379,967

Proprietary Program Description

The Information Technology Services Division (ITSD) manages the following information technology (IT) services for state government:

- Shared statewide desktop and data network services
- Central mainframe computer processing
- Mid-tier access and production services
- Local and long-distance telephone networking
- IT planning, research, and coordination
- Design, development, and maintenance support of IT applications
- Personal computer (PC) and office automation support and consultation
- Design and development of telephone equipment, networking applications, and other telecommunication needs
- Internet and intranet services
- Electronic government planning and coordination
- Central imaging
- Geographic information systems (GIS) coordination
- Disaster recovery facilities for critical data processing applications
- IT training

Funding

The following table shows estimated funding sources for payments made by users for the base and the 2011 biennium.

Estimated Funding for Payments to ISD Proprietary
(in Millions)

Item	Base	FY 2010 est.	FY 2011 est.
General Fund	$13.5	$15.5	$15.7
State Special Revenue	7.5	8.6	8.8
Federal Special Revenue	5.7	6.5	6.6
Proprietary	5.5	6.3	6.4
Other	2.6	3.0	3.1
Total Payments	$34.8	$39.9	$40.6

Program Narrative

Expenses

Expenses of the division are dominated by the following costs:

- Personal services ($13.1 million) for 174.50 FTE, which comprise 36.0 percent of the program costs
- Software program licensing costs ($7.7 million)
- Local and long distance circuits and charges ($5.3 million)
- Procurement of computer equipment ($3.1 million)
- Computer maintenance ($1.9 million)
- IT vender services ($1.0 million)
- Indirect costs paid to other proprietary funded programs of the department ($0.3 million)
- Education and training for IT staff ($0.3 million)

The information technology industry has economies of scale and the division’s rates reflect the trend as more agencies use larger volumes of services. Counteracting this trend is agency demand for more advanced technologies and a greater level of service, such as faster network speeds. Virtual meetings, streaming video, and a greater number of agency web-based applications all require more bandwidth. Higher network costs are a major cost driver. Other cost drivers include the new enterprise service center (ESSC) and the continuing increase in agency demand for division application, storage, and server hosting. These changes expand the division’s budget size, but not individual rates.

Revenues

Revenues are derived from charges to state agencies for server and application hosting and data/voice network services. A significant portion of fees are collected for enterprise services, which are charged based on a per-user allocation. A change from past practices and beginning in the 2011 biennium would include establishing a separate rate for services that benefit all users but are not directly tied to a specific service, such as funding for the state chief information officer or the items identified below under enterprise services.

Services provided are categorized as:

- Hosting services
  - Servers
  - Storage
  - Web sites
  - Applications
  - Enterprise email
  - Basic mapping service center
- Systems development services
  - Application development

  - Web application development
  - GIS application development
- o Communications and connectivity services
  - Local and long-distance voice services
  - Design and development of telephone equipment and voice applications
  - Internet access
  - Data network services
  - Video conferencing services
- o Operations support
  - Imaging scanning and content management
  - Application printing
  - Systems operations and tape management
  - Local area network (LAN) administration
  - PC and desktop office software support
  - Enterprise-wide service center support
- o Enterprise services
  - Continuity of operations planning (COOP)
  - Enterprise security
  - Enterprise architecture
  - IT project management
  - IT strategic planning and agency IT plan approval
  - Montana Information Technology Act (MITA) oversight of IT activities
  - Support for IT councils and advisory groups
  - State Chief information Officer and Geographic Information Officer activities
  - Enterprise-wide IT procurement and contract management
  - IT policy, standards, and procedures
  - IT training coordination
  - Mt.gov and MINE portal development and hosting
  - State telephone operators
  - Public safety services
  - Enhanced 911 program
  - Interoperability Montana (IM) public safety radio program
- o Enterprise Service Systems Centers project

LFD ISSUE

Full-cost Maturity Model

The division's rates for the 2011 biennium are based on a new model called the Full-cost Maturity Model (FMM), an activity based budgeting model developed based on costs to provide each service offered by the division and the projected utilization of those services. This model is very detailed and requires input from user agencies for service utilization projections. As a result, agencies will be better able to see what is included in each rate and will have some options to choose what services they will use. Over the past year the division has defined over 260 services, allocated costs and staff time to each service, and estimated units of service provided to each agency. Rates are based on a detailed allocation of expenditures and staff time to each service.

Agencies will pay $4.4 million more each year for services of the division. The increase in budgets for user agencies is funded in the fixed cost component of the statewide present law adjustment. The increases are due largely to ongoing costs associated with projects funded by the 2007 legislature such as to provide network connectivity costs associated with the expansion of the state's voice, video, and data network, costs to operate the new data centers in Helena and Miles City, and for costs associated with a software licensing agreement that serves as an umbrella agreement for state agencies for Microsoft software.

LFD ISSUE

Opportunity for Performance Monitoring

The FMM offers agencies more clarity into services they receive from the division. Through this increased clarity agencies are better able to determine the costs and characteristics of the services they buy from the division. The legislature may want to discuss with the division the outcomes expected from implementing the FMM and measures it could used to monitor how effective the FFM is at achieving the outcomes intended.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

ISD Proprietary - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$211,369	$365,838
DP 0106 Allocate department indirect/admin costs	156,757	164,662
DP 6103 Network Expansion On-going Transport (	1,500,000	1,500,000
DP 6104 ESSC Operating Costs	365,000	832,720
DP 6105 Microsoft EA	1,875,380	1,875,380
DP 6107 Attachment Settlement	(921,453)	(921,453)
Total Present Law Adjustments	$917,866	$1,124,650

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 6103 - Network Expansion On-going Transport Costs – An increase of $3.0 million proprietary funds for the biennium is requested to fund additional communications costs as a result of the Network Expansion Project funded in HB 4 of the May 2007 Special Session. This request increases overall rates by approximately 4.37 percent.

LFD COMMENT

The project is currently in the implementation phase to install a high capacity fiber backbone with connection points in Missoula, Helena, Bozeman, and Billings. A fiber optic cable upgrade for the capitol complex has been completed. The project was undertaken to address growing demand for state network traffic, improve the speed and reliability of the state's voice, video, and data network, and continue to provide converged information technology services to rural locations of Montana. Except for equipment installed in state facilities to terminate network connections, the fiber optic and microwave networks that provide the services are owned and operated by private communications companies and charges are made to the state for use of the network. The costs associated with this request are for ongoing payments for use of the private sector communications company services.

DP 6104 - ESSC Operating Costs – An increase of $1.2 million proprietary funds for the biennium is requested to fund new operating and maintenance costs associated with the new Helena and Miles City data centers. Included in this request are maintenance charges paid to the General Services Division of the department for the Helena site and maintenance and utility costs for the Miles City site. This adjustment increases overall rates by approximately 2.43 percent.

DP 6105 - Microsoft EA – An increase of $3.8 million proprietary funds for the biennium is requested to fund increases associated with an enterprise license agreement for a volume licensing program of Microsoft Professional Plus software products. This adjustment increases the overall rates by approximately 5.47 percent.

LFD COMMENT The Microsoft enterprise license agreement is a volume licensing program that simplifies license management, provides maintenance benefits and includes rights to any Microsoft supported version of and upgrades to the latest versions of Microsoft Professional Plus software products (Outlook, Word, Excel, PowerPoint, Access, Publisher, InfoPath, and Communicator) for the term of the contract. It also provides licenses to upgrade all desktops with a current Microsoft operating system license covered under the agreement to the Windows Vista operating system. The cost is for a three year agreement, after which the state will pay only the maintenance costs for a period of the contract renewable over seven years.

Additional benefits include Microsoft Core and Enterprise Client Access License (CAL) Suites, a substantial number of training vouchers that can be used to obtain tutor-led technical training courses delivered by any Microsoft Certified Partners for Learning Solutions (CPLS), and extensive on-line training for all users that can be taken from home or at work. It also includes problem resolution support and TechNet plus support, which allows the state to get full-version software licenses for evaluation of new Microsoft products.

DP 6107 - Attachmate Settlement – A reduction of $1.8 million proprietary funds for the biennium is proposed to remove base funding associated with funds paid in the Attachmate software settlement. This adjustment decreases the overall rates by approximately 2.69 percent.

LFD COMMENT Attachmate is one of the largest privately owned software companies in the world. It focused on terminal emulation software that connects personal computer (PC) users to applications running on mainframe computers and other data communications mainframe hardware adapters and drivers. The state has been an Attachmate customer since the late 1980s. Over the years the state has purchased various versions of Attachmate software with each version having a slightly different license agreement. The various agreements with Attachmate all grant rights to install and use a single copy of each software program on a PC provided a license fee has been paid for that device. Attachmate has recently disputed the division's previous practices on determining when separate licenses are needed for this product and a settlement was reached and paid in the base. This adjustment removes the $921,453 paid in the settlement from base funding.

New Proposals

ISD Proprietary Internal Services Program - New Proposals

DP Name	FY 2010	FY 2011
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	$5,288	$4,576

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the executive request the legislature approve the following rates for the division

The Information Technology Services Division seeks the ability to continue to charge various rates in order to maintain a 30-day working capital.

Rate explanation

Division rates are based on a wide variety of measures, each measure proportional to the usage. Rates that generate major portions of division revenue are listed below:

- Hosting services:
  - Storage hosting rates are based on space usage
  - Server hosting
    - Mainframe rate based on actual usage
    - Mid-tier servers rates based on a formula that accounts for the size of server, space used, and division staff time required
  - Application hosting rates are based on individual service level agreements (SLA)
- Connectivity services:
  - Data network rates are based on the number of users with active directory accounts on the network
  - Video services are based on conference hours
  - Voice services:
    - Telephone desktop equipment rates are based on type of equipment
    - Local calls are based on a flat rate
    - Long distance and toll free services are based on minutes
- Enterprise Service rate is based on the number of users with active directory accounts on the network

Customers are billed at the actual fee or rate based upon an activity-based budgeting model that allocates costs to individual services.

LFD ISSUE

Fees Not Established - 30-day Working Capital is Not a Fee

Statutory Direction

Montana laws states that the executive budget submission must contain a report for internal services funds that includes:

"Fees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium."

The program requests that instead of approving fees, that the legislature provide the program the flexibility to operate as it determines necessary to maintain a 30-day working capital balance to operate the division. The request does not comply with the statutory direction for submission of fees and charges and it provides no fees and charges that the legislature can approve. Montana statue already provides the permissive authority for the program to operate up to a 60-day working capital level. As discussed below, working capital is not a fee the program can charge to its users, it is an accounting parameter.

30 Days of Working Capital as a Rate

The program charges hundreds of specific rates for services provided to state agencies. Montana statute states that the legislature, in the general appropriations act effective for the biennium, approves what would be the maximum level for the fees and charges of internal service fund type programs. Prior to HB 576 of the 1997 Legislature, internal service funds were funded via appropriations of the legislature, which capped the level of expenditures the programs could make

LFD ISSUE (Cont.)

during a biennium. HB 576 replaced the appropriation with a requirement for the legislature to approve the maximum level of fees and charges of the program. Maximum fees and charges combined with the statute requirement that fees and charges of internal service funded program must be commensurate with costs indirectly limit the expenditures of the program through its revenue mechanism and serves as a surrogate for an appropriation. Legislatively approved maximum levels for fees and charges also protect user agencies from the proprietary program increasing fees to fund expenditures that may not coincide with legislative policies or which were not anticipated by the legislature. As stated, the Information Technology Services Division charges specific fees for hosting, connectivity, and enterprise service, yet it continues to request that the legislature fulfill its statutory responsibility by approving 30-days of working capital as a rate for the division.

Working capital is an accounting parameter defined as the difference between current assets and current liabilities. Current assets are assets that are reasonably expected to be realized in cash, or sold, or consumed during the normal operating cycle of the business (usually one year). Current liabilities are liabilities to be paid within one year of the balance sheet date. Since working capital is the mathematical difference between current assets and current liabilities, it can change daily based on timing and levels of expense payments and revenue collections. A limit on the level of working capital does nothing to limit expenses, which through appropriations is how the legislature establishes policies for executive programs. Establishing the maximum level of fees a services- providing program can charge its users that are commensurate with costs also protects user programs from excessive charges and through the budgeting process allows user agencies appropriations to pay for the services of the program.

Legislative Option for Addressing the Executive Request

Because the division has not proposed fees for the legislature to approve, the legislature may wish to first deliberate over changes in the division’s anticipated expenditures as if the division were a HB 2 program. It could do this through the same process used for HB 2 programs by adopting a base and statewide present law adjustment and then determining consensus on decision packages. Once the expenditures are established for the 2011 biennium, it could request the division determine the fees that would correspond to the expenditure assumptions and present them to the legislature for approval.

Alternative Rate for Legislative Approval

An alternative approach the legislature could take is to adopt a limit on the amount of costs it could allocate to user programs. Instead of approving a 30-day working capital rate as proposed by the executive, the legislature could approve a maximum level of which the division could allocate costs to user agencies. Approving a maximum cost allocation rate would allow the legislature to more directly set policy through fiscal constraints. The report for the internal service fund estimates that revenues of $39,929,886 for FY 2010 and $39,929,886 for FY 2011 would fund operations for the 2011 biennium. The legislature could approve these revenue limits as the maximum levels it could allocate its costs to users.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	39.00	39.00	39.00	39.00	39.00	39.00	0.00	0.00%
Personal Services	2,246,830	2,895,305	2,845,913	2,958,451	5,142,135	5,804,364	662,229	12.88%
Operating Expenses	689,194	873,584	796,767	765,223	1,562,778	1,561,990	(788)	(0.05%)
Total Costs	**$2,936,024**	**$3,768,889**	**$3,642,680**	**$3,723,674**	**$6,704,913**	**$7,366,354**	**$661,441**	**9.87%**
State Special	2,936,024	3,768,889	3,642,680	3,723,674	6,704,913	7,366,354	661,441	9.87%
Total Funds	**$2,936,024**	**$3,768,889**	**$3,642,680**	**$3,723,674**	**$6,704,913**	**$7,366,354**	**$661,441**	**9.87%**

Program Description

The Banking and Financial Institutions Division licenses, supervises, regulates, and examines a variety of financial institutions operating in and outside Montana such as:

- State-chartered banks, trust companies, savings and loans, and credit unions
- Consumer loan and sales finance companies
- Title loan companies
- Escrow companies
- Foreign capital depositories in accordance with Title 32, MCA
- Deferred deposit loan companies
- Mortgage brokers and loan originators

The purpose of the supervisory function is to investigate the methods of operation in order to determine whether these institutions are operating in a safe and sound fiscal manner. Supervision of regulated financial business is accomplished through on-site safety and soundness examinations conducted by division examiners. The division also provides a consumer complaint process to resolve matters with the regulated financial institutions.

The State Banking Board is administratively attached to the division. The board is responsible for making final determinations of applications for new bank charters and foreign capital depository charters; hearing appeals of division decisions on branch bank, merger, or relocation applications; and acting in an advisory capacity with respect to the duties and powers given by statute or otherwise to the department as the duties and powers relate to banking and to the regulation of foreign capital depositories.

Program Highlights

Department of Administration
Banking and Financial Division
Major Budget Highlights

- State special revenue increases $661,400, or 9.9 percent, from the 2009 to the 2011 biennium
  - Statewide present law adjustments mostly for personal services and funding for a banking examiner career ladder account for nearly all of the growth

Major LFD Issues

- Performance objectives could be strengthened

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goals for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

- Protect Montanans who enter into short term, high rate loans with lenders from abuses that occur in the credit marketplace
    - Examine deferred deposit, title, consumer lenders and mortgage brokers and loan originators to ensure compliance with Montana and federal law
    - Issue licenses to entities who meet the requirements of law
    - Provide Montanans with a consumer complaint process involving any entity that violates the law
- Protect Montanans who enter into residential mortgage loans with mortgage brokers and lenders from abuses that occur in the credit marketplace
    - Examine mortgage broker and lender licensees to ensure compliance with Montana and federal law
    - Issue licenses to entities and individuals who meet the requirements of law
    - Provide Montanans with a consumer complaint process involving any mortgage licensee that violates the law
- Provide Montanans with a safe and sound system of state-chartered financial institutions
    - Examine state-chartered financial institutions to assure their operations are in accordance with law and sound financial institution practices
    - Coordinate the supervision of financial institutions with federal regulatory agencies
- Promote the dual banking system that allows state and federal governments to act independently to charter, regulate and supervise financial institutions for the good of Montanans
    - Address the needs of banks, the local communities and Montanans while assuring safe and sound banking practices
    - Authorize state-chartered banks to engage in any activity in which the bank could engage if it were operating as a national bank as provided by law

LFD ISSUE The nation is facing a fiscal crisis involving questionable practices of financial institutions. The purpose for the division is to provide protection for Montanans from unsound operating practices of state chartered financial institutions and to verify that the institutions licensed to operate meet the requirements for doing so. The goals identified as key to the division all relate to issues identified with the current fiscal crisis. The objectives for these goals fail to include performance indicators or timing information that would allow the legislature to formulate an appropriations policy for this function and at a later date determine if the goal was attained. The legislature may want to discuss with the division development of objectives and their budgetary ties that would trigger timely intervention if a financial institution jeopardized the safety of Montanan’s financial investments in state institutions, and how the legislature could better monitor the effectiveness of the division and impact this effectiveness with appropriations policies.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table
Banking And Financial Division

Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
02000	Total State Special Funds	$ 2,936,024	100.0%	$ 3,642,680	100.0%	$ 3,723,674	100.0%
	02077 Financial Institutions Div	2,936,024	100.0%	3,642,680	100.0%	3,723,674	100.0%
Grand	Total	$ 2,936,024	100.0%	$ 3,642,680	100.0%	$ 3,723,674	100.0%

The division is funded solely by state special revenue through assessments, application fees, and examination fees paid by the regulated financial institutions.

Budget Summary by Category
The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	2,936,024	2,936,024	5,872,048	79.71%
Statewide PL Adjustments	0	0	0	0.00%	540,052	545,636	1,085,688	14.74%
Other PL Adjustments	0	0	0	0.00%	165,422	240,964	406,386	5.52%
New Proposals	0	0	0	0.00%	1,182	1,050	2,232	0.03%
Total Budget	**$0**	**$0**	**$0**		**$3,642,680**	**$3,723,674**	**$7,366,354**	

Present Law Adjustments
The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					609,146					617,863
Vacancy Savings					(114,238)					(114,592)
Inflation/Deflation					8,845					9,819
Fixed Costs					36,299					32,546
Total Statewide Present Law Adjustments					**$540,052**					**$545,636**
DP 106 - Allocate department indirect/admin costs	0.00	0	24,947	0	24,947	0.00	0	26,614	0	26,614
DP 1401 - Banking Professional Career Ladder Program	0.00	0	104,175	0	104,175	0.00	0	208,350	0	208,350
DP 1402 - Banking Replacement of Desktop & Laptop Computers	0.00	0	36,300	0	36,300	0.00	0	6,000	0	6,000
Total Other Present Law Adjustments	**0.00**	**$0**	**$165,422**	**$0**	**$165,422**	**0.00**	**$0**	**$240,964**	**$0**	**$240,964**
Grand Total All Present Law Adjustments					**$705,474**					**$786,600**

Program Personal Services Narrative
The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate**
  - The statewide personal services adjustment represents salaries for the division at an estimated 95 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 114 percent of market relative to the 2006 executive branch market survey
- **Vacancy**
  - The division has identified financial examiners as an occupational group that poses difficulties of high turnover or difficulties in recruitment and retention. Factors identified include large amounts of travel and more competitive salaries in private sector financial institutions and federal regulators

- **Legislatively Applied Vacancy Savings**
  - The division used normal turnover in order to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT In terms of FTE-hours, the division experienced an 18.8 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division underspent its personal services authority by 18.1 percent as appropriated by the 2007 Legislature.

- **Pay Changes**
  - Pay increases given to division HB 2 funded staff were limited to professional career ladder adjustments funded in HB 2 and 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature
- **Retirements**
  - The division has twelve employees that will be eligible for full retirement (30 years of state service or 60 years of age). The division anticipates that there will be five employees retiring in the 2011 biennium at a cost of $51,000 in unfunded compensated absence liabilities

<u>DP 106 - Allocate department indirect/admin costs -</u> An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

<u>DP 1401 - Banking Professional Career Ladder Program -</u> An increase of $312,525 state special revenue for the biennium is requested to fund the division’s professional career ladder program.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The Banking Professional Career Ladder Program is needed so the division can retain and recruit its bank examiners. During the next biennium, five senior examiners are eligible to retire. Montana banks and credit unions hold $17.5 billion in assets. The safety and soundness of Montana's financial institutions is crucial during this economic period. Regulation of the mortgage industry for the benefit of Montana borrowers is also key to the strength of our economy. The supervision of banks, credit unions, and other financial institutions is highly specialized work which requires extensive and continuous education as well as long-term on-the-job training. On average, it takes a minimum of five years to adequately train a bank examiner before they may attain the designation of a senior examiner. If the career ladder program is not adopted, the division will lose its examiners to federal financial regulators such as the Federal

Deposit Insurance Corporation, Federal Reserve Bank, and the Office of the Comptroller of the Currency and financial institutions within the private sector. Without the experience and retention of staff, the ability of the division to supervise the safety and soundness of Montana's banks, credit unions, and other financial institutions will be jeopardized.

Goal: Three goals are identified for the professional career ladder program:

- To retain bank examiners who will achieve the skills and knowledge necessary to become senior examiners. In turn, these senior examiners would be integral as part of the division's management succession plan
- To use the career ladder program as an incentive to attract qualified applicants to fill vacancies within the division
- To assure the division's continued accreditation for meeting professional standards in bank supervision by the Conference of State Bank Supervisors

Performance Criteria: The progress of the professional career ladder program would be measured by the retention of existing bank examiners and the recruitment of qualified individuals to fill vacancies.

Milestones: The division is continuously putting its efforts into the retention and recruitment of its staff. This request represents an ongoing effort by the division to be competitive with the federal regulators and the private financial institution sector. The division will continue the professional career ladder until it has the ability to competitively recruit and retain bank examiners.

FTE: No new FTE are requested, only funding for existing FTE.

Fees: The request is to continue funding the professional career ladder program. It would be supported by the division's state special revenue fund which is comprised of the licensing, examination, and assessment fees charged to its state chartered financial institutions and other licensees. The program would provide salary adjustments based upon an employee's performance and competency in fiscal years 2010 and 2011. The maximum potential salary adjustment for an employee during either fiscal year would be between $1,500 and $2,500.

Obstacles: The challenge to implementing this proposal is that although it provides additional funding, it does not match the higher salaries offered by federal financial regulators and financial institutions within the private sector. Therefore, even with having the career ladder program in place, the division bank examiners are offered positions with federal financial regulators and financial institutions within the private sector. However, the prospect of retaining staff by having the career ladder program in place is much better than if this funding was discontinued.

Risks: If the request is not adopted, the division expects difficulties retaining financial examiners. Without the experience and retention of bank examiners, the ability of the division to supervise the safety and soundness of Montana's banks, credit unions, and financial institutions will be jeopardized. The division needs experienced examiners in its mortgage broker and lender program to protect Montana borrowers and to address the affects of the ongoing national credit and liquidity crisis.

LFD ISSUE

Measuring Success of the Professional Career Ladder for Bank Examiners

In FY 2002, the division implemented the broadband pay plan for its financial institution examination personnel and adopted a competency-based pay system (the career ladder) to address turnover issues for jobs in the private-sector or with the federal government with greater salary potential and fewer travel demands. High turnover was a factor in the division failing to become a nationally accredited regulatory agency. The division first received funding for the professional career ladder program in the 2003 Legislature and the program has been funded in each biennium since.

After three biennia of funding the program, the legislature may want to discuss with the division the progress it has made and the effects of the program. The division has stated it measures success of the program through progress of the

LFD ISSUE (Cont.)

professional career ladder program through experience in the retention of existing bank examiners and the recruitment of qualified individuals to fill vacancies.

As it reviews the funding request for continuation of this program, the legislature may want do discuss with the division the specific outcomes and progress the program has made in attaining the stated goals. In other words, how is the program working to retain and recruit qualified bank examiners to carry out the mission of the division?

DP 1402 - Banking Replacement of Desktop & Laptop Computers - An increase of $42,300 state special revenue for the biennium is requested to replace desktop computers and laptops.

LFD ISSUE

Would Establish a Base for a Two-year Replacement Cycle

As requested the funding for computer replacement would establish funding to replace computers for 65 percent of division staff or 25.00 FTE during the 2011 biennium. Of the biennium funding, $36,300 is for FY 2010 which when combined with the base of $6,810, and if the full funding were expended in FY 2010 would establish an ongoing funding level adequate to replace all staff computers every two years beginning in FY 2012. The state standard for replacing computers is four years. Also, the executive budget instructions estimate the cost for a laptop computer at $2,200.

The legislature may wish to adjust the request to structure the funding for computer replacements to match the four-year standard. If the legislature wanted to structure the division's computer replacement funding this way it could do it in a number of ways:

- Option 1 – Adjust the annual amounts of DP 1402 to $15,190. This would reduce the request by $11,920 for the biennium and, when the base is considered, establish annual funding levels at $22,000 or enough funding to purchase 10 computers at a price of $2,200
- Option 2 – Leave the funding levels as they are in the request, but designate $21,110 of the FY 2010 funding as one time only. This would establish future base funding at $22,000, which is the funding to establish a four-year replacement cycle at a cost of $2,200 per computer

New Proposals

New Proposals

	Fiscal 2010					Fiscal 2011				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation										
14	0.00	0	1,182	0	1,182	0.00	0	1,050	0	1,050
Total	**0.00**	**$0**	**$1,182**	**$0**	**$1,182 ***	**0.00**	**$0**	**$1,050**	**$0**	**$1,050 ***

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	31.50	31.50	31.50	31.50	31.50	31.50	0.00	0.00%
Personal Services	1,705,624	1,741,238	1,771,010	1,776,113	3,446,862	3,547,123	100,261	2.91%
Operating Expenses	5,444,138	5,878,210	5,577,282	5,475,212	11,322,348	11,052,494	(269,854)	(2.38%)
Equipment & Intangible Assets	42,077	42,256	42,077	42,077	84,333	84,154	(179)	(0.21%)
Total Costs	**$7,191,839**	**$7,661,704**	**$7,390,369**	**$7,293,402**	**$14,853,543**	**$14,683,771**	**($169,772)**	**(1.14%)**
Other	7,191,839	7,661,704	7,390,369	7,293,402	14,853,543	14,683,771	(169,772)	(1.14%)
Total Funds	**$7,191,839**	**$7,661,704**	**$7,390,369**	**$7,293,402**	**$14,853,543**	**$14,683,771**	**($169,772)**	**(1.14%)**

Program Description

The Montana State Lottery designs and markets lottery games that allow players to purchase chances to win prizes. The lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. A five-member lottery commission, appointed by the Governor, sets policy and oversees program activities and procedures. The net revenue, after prizes, sales commissions and operating expenses, is deposited in the state general fund on a quarterly basis.

Program Highlights

Department of Administration
Montana State Lottery
Major Budget Highlights

- ♦ 2011 biennium funding is nearly the same as 2009 biennium funding
- ♦ Statewide present law adjustments account for most funding adjustments

Program Narrative

Goals and Objectives

<u>2009 Biennium Major Goals Monitored</u>

No goals specific to this division were monitored during the 2009 biennium

<u>2011 Biennium Major Goals</u>

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goal for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

- o To continue to maximize the transfer of net revenue to the general fund
    - $11.0 million in FY 2010
    - $12.0 million in FY 2011

Net Revenue Transfers to the General Fund

The Montana State Lottery is an enterprise type proprietary program operated to generate and transfer net revenue to the general fund after deducting operating expenses. Because the net revenues are transferred to the general fund, Montana law requires the operating budget of the lottery to be appropriated by the legislature. In FY 2008, the lottery transferred $11.0 million, its second largest annual net revenues transfer, to the state general fund. The following figure shows the historical transfers from the lottery to the general fund since FY 2000. The figure shows that the transfers have increased each year except for FY 2005 and FY 2008. The lottery attributed low net revenue in FY 2005 to frequent wins in Multi-State Lottery Association (MSLA) games and low sales due to lack of large prize amounts. The dip in FY 2008 was attributed to operating expenses that increased without a commensurate increase in revenues. The major cost increases attributed to the decline in the transfer are personal services, rent, multi-state dues, and a new requirement to book an expense for other post employment benefits, all of which are ongoing expenses and will reduce future general fund transfers.

Historical Transfers Lottery to General Fund (in Millions)

Fiscal Year	Transfer
FY 2000	$5.8
FY 2001	$6.1
FY 2002	$7.5
FY 2003	$7.5
FY 2004	$8.1
FY 2005	$6.2
FY 2006	$9.1
FY 2007	$11.4
FY 2008	$11.0

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table
Montana State Lottery

Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
06000 Total Proprietary Funds	$ 7,191,839	100.0%	$ 7,390,369	100.0%	$ 7,293,402	100.0%
06001 State Lottery Fund	7,191,839	100.0%	7,390,369	100.0%	7,293,402	100.0%
Grand Total	$ 7,191,839	100.0%	$ 7,390,369	100.0%	$ 7,293,402	100.0%

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery are by state law transferred to the general fund. Therefore, the lottery is indirectly funded with general fund and by law may only make expenditures against appropriations of the legislature.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	0	0	0	0.00%	7,191,839	7,191,839	14,383,678	97.96%
Statewide PL Adjustments	0	0	0	0.00%	168,427	66,573	235,000	1.60%
Other PL Adjustments	0	0	0	0.00%	29,123	34,142	63,265	0.43%
New Proposals	0	0	0	0.00%	980	848	1,828	0.01%
Total Budget	**$0**	**$0**	**$0**		**$7,390,369**	**$7,293,402**	**$14,683,771**	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010 FTE	General Fund	State Special	Federal Special	Total Funds	Fiscal 2011 FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					137,879					143,192
Vacancy Savings					(73,743)					(73,953)
Inflation/Deflation					8,624					9,898
Fixed Costs					95,667					(12,564)
Total Statewide Present Law Adjustments					**$168,427 ***					**$66,573 ***
DP 106 - Allocate department indirect/admin costs	0.00	0	0	0	13,824 *	0.00	0	0	0	14,983 *
DP 1501 - Lottery Commission Per Diem	0.00	0	0	0	1,250 *	0.00	0	0	0	1,250 *
DP 1502 - Lottery Rent	0.00	0	0	0	14,049 *	0.00	0	0	0	17,909 *
Total Other Present Law Adjustments	**0.00**	**$0**	**$0**	**$0**	**$29,123 ***	**0.00**	**$0**	**$0**	**$0**	**$34,142 ***
Grand Total All Present Law Adjustments					**$197,550 ***					**$100,715 ***

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate**
  - The statewide personal services adjustment represents salaries for the division at an estimated 90 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 99 percent of market relative to the 2006 executive branch market survey
- **Vacancy**
  - The division has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention
- **Legislatively Applied Vacancy Savings**
  - The division used operating funds to address the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT In terms of FTE-hours, the division experienced a 2.5 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority by 1.8 percent.

- **Pay Changes**
  - Pay increases given to division HB 2 funded staff were for the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature and situation pay adjustments given to all non-management employees to adjust for the increased workload from adding an additional 500 retail locations

LFD COMMENT Situation pay increases funded outside of HB were in addition to and 3.8 times the increases given in the 3.0 percent HB 13 pay adjustments.

- **Retirements**
  - The division anticipates one employee would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium and this retirement would result in about $11,000 in unfunded compensated absence liability

DP 106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

DP 1501 - Lottery Commission Per Diem - An increase of $2,500 lottery proprietary funds for the biennium is requested to fund per diem for five meetings of the lottery commission per year.

DP 1502 - Lottery Rent - An increase of $32,000 lottery proprietary funds for the biennium is requested to fund rental contract specified increases for rent of the lottery building in Helena.

New Proposals

New Proposals

	Fiscal 2010					Fiscal 2011				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation										
15	0.00	0	0	0	980 *	0.00	0	0	0	848 *
Total	**0.00**	**$0**	**$0**	**$0**	**$980 ***	**0.00**	**$0**	**$0**	**$0**	**$848 ***

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Health Care and Benefits Division - Proposed Budget Table

Account Name/Funding	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	13.87	5.00	18.87	5.00	18.87
61000 Personal Services	$773,912	$550,636	$1,324,548	$158,704	$932,616
62000 Operating Expenses	6,878,949	362,756	7,241,705	227,001	7,105,950
67000 Benefits & Claims	114,543,695	17,561,219	132,104,914	28,321,015	143,409,699
Total Costs	$122,196,556	$18,474,611	$140,671,186	$28,706,720	$151,448,265
State Special Revenue	$43,116	$5,285	$48,401	$7,151	$50,267
Proprietary Funds	122,153,440	18,469,326	140,622,766	28,699,569	151,397,998
Total Funds	$122,196,556	$18,474,611	$140,671,167	$28,706,720	$151,448,265

Program Description

The Health Care and Benefits Division provides state employees, retirees, members of the legislature, judges and judicial branch employees, and their dependents with group benefits in an efficient manner and at an affordable cost by administering a solvent, prudent benefits program. The division administers benefits plans including health, dental, prescription drug, life, long-term care, vision coverage, long-term disability, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. The division administers a lease and contract to provide daycare services for Helena area state employees. Finally, the division is responsible for the centralized oversight and management of workers' compensation related matters impacting the state as an employer.

Employee benefits are governed by 2-18-701 et seq., 2-18-801 et seq., 2-18-1101 et seq., 2-18-1301 et seq., and 33-2-712, MCA. The Montana Safety Culture Act as it applies to state government is found in 39-71-1501 et seq.

Program Highlights

Health Care and Benefits Division
Major Budget Highlights

- ♦ The executive budget continues the Workers' Compensation Management Program funded from a one time general fund appropriation in the 2009 biennium, including 3.00 FTE to manage the program
  - o The executive budget requests a new proprietary fund supported by a charge for each agency payroll warrant and advice
  - o During the 2009 biennium, the program saved an estimated $10.6 million general fund
- ♦ New proposals fund 2.00 FTE for accounting system and legal support for the state employee group benefits functions
- ♦ Proprietary funding increases a net $47.2 million over the biennium
- ♦ Anticipated revenue growth to support higher health plan costs adds $45.9 million
- ♦ Reductions in statewide present law adjustments offset $1.4 million of the increase
- Program goals and objectives center on efficient management of employee group benefits and a reduction in the number of work-time loss injury claims among employees by 50 percent

Major LFD Issues

- The legislative process to integrate the analysis of the state employee group health plan with changes proposed in the employee pay plan bill is tenuous
- Health plan reserve levels may be in excess of legislatively desired levels
- The state employee health plan charges retired employees the same premium as active employees despite significant loss ratios for retirees under 65
- Program goals do not measure health plan activities, including the wellness program

Program Narrative

The Health Care and Benefits Division (HCBD) budget increases $47.2 million over the 2011 biennium. Most of the growth is in present law adjustments and supports anticipated cost increases for health and prescription drug services. A new proposal requesting a proprietary fund for the Workers' Compensation Management Program is funded by a charge for each agency payroll warrant or advice. FTE increase by five positions – three for the workers' compensation program, and an attorney and systems analyst for the group benefits function.

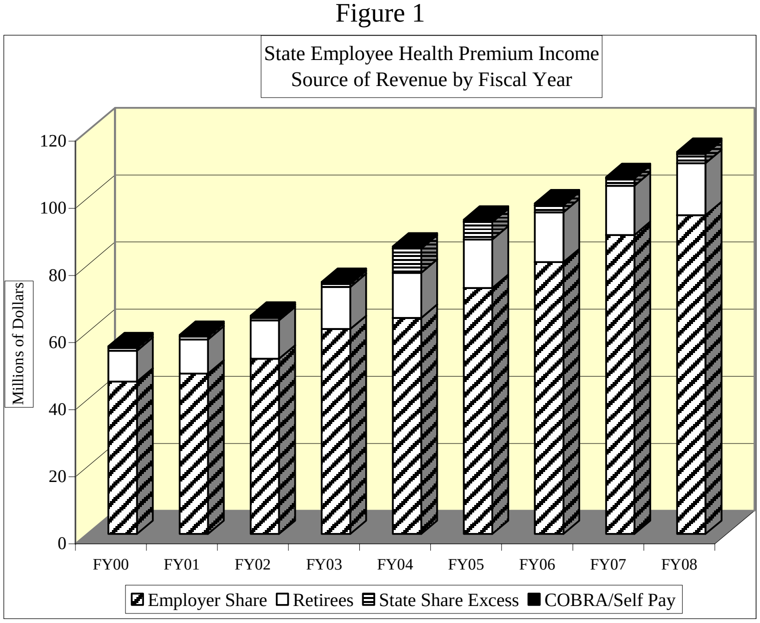
Most of the division budget is for benefits and claims payments and about $100 million supported health and prescription drug services for active employees and retirees in the base budget. At the end of FY 2008, there were about 15,700 plan participants and, counting dependents and spouses, over 32,000 people were covered.

The flexible spending account program is about $7 million per year, with about $136,000 in administrative fee income to support operating costs. About 5,000 employees participate in the flexible spending account program. The workers' compensation program is about $785,000 over the biennium.

Payment Source for Revenue Supporting State Employee Group Benefits

Figure 1 shows the components of total proprietary revenues for the state employee group benefit plan from insurance premium payments. Employer contributions are the largest component contributing more than double other payment sources. Retiree premium payments are the next largest source.

Figure 1



Legislative appropriations in the 2005 biennium funded employer contributions in excess of what some employees could use, thereby generating a state share excess. This action helped offset a potential shortfall in the state health plan.

Finally, payments from persons who can elect to pay premiums and continue as part of the state plan for up to 18 months after leaving state employment – COBRA participants – make up a small portion of premium payments.

Figure 2 shows the monthly amount of employer contribution for insurance coverage for each eligible employee. The executive budget had not completed its 2011 biennium pay plan request as of November 30, 2008. Therefore Figure 2 shows what employer contribution increases would be based on the proprietary rate table in the executive budget request for the state employee health plan, rather than amounts included in the pay plan. LFD staff estimated an increase of $53 per month in beginning January 1, 2010 ($679) and $54 per month beginning January 1, 2011 ($733). The rate in 2009 is $626 per month.

Figure 3 shows the fund source that has paid the employer contribution since FY 2001. General fund payments have ranged from a low of 38 percent in FY 2001 to a high of 40 percent in FY 2008.

Figure 2

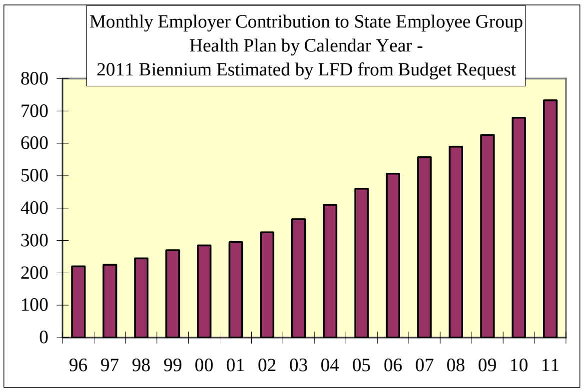
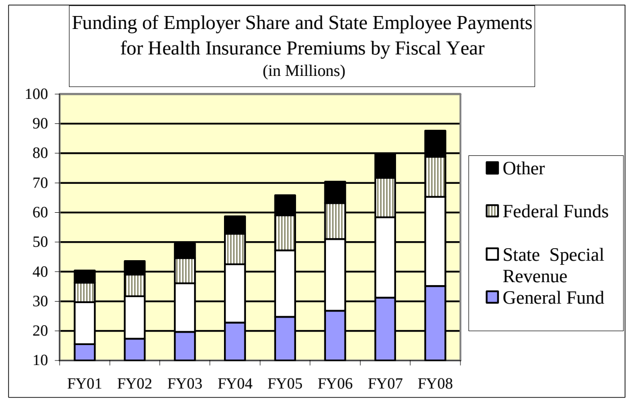


Figure 3



LFD ISSUE

Subsidy for Retiree Health Plan Costs

Health plan contributions for (and by) active employees subsidize the cost of retiree health care. Figure 4 shows the per capita monthly income and cost by type of health plan enrollee for plan years 2006 and 2007 (January 1 through December 31). Active employees were the only group where per capita income exceeded per capita costs, with an average monthly excess of $89 in 2006 and $104 in 2007. The largest difference between per capita monthly income and cost was for retirees under 65 with monthly subsidies of $240 in 2006 and $229 in 2007. Retirees over 65 also incurred costs higher than revenues, with monthly subsidies of $133 in 2006 and $125 in 2007. (Since the implementation of Medicare Part D drug coverage, the monthly subsidy for Medicare eligible retirees is much smaller.)

Figure 4

Per Capita Average Monthly Revenue and Cost by Enrollee Group*
Montana State Employee Group Health Plan

Plan Year	Active Employees Revenue	Active Employees Cost	Revenue Over (Under) Cost	Retirees Under 65 Revenue	Retirees Under 65 Cost	Revenue Over (Under) Cost	Retirees Over 65** Revenue	Retirees Over 65** Cost	Revenue Over (Under) Cost
2006	$536	$447	($89)	$557	$797	$240	$263	$396	$133
2007	569	465	(104)	600	829	229	262	386	125

*Information taken from year end actuarial reports. Revenue and costs are for the medical and prescription drug plans only.
**The subsidy to retirees over 65 is less now that Medicare Part D reimburses the state health plan for part of the cost for prescription drugs.

High Loss Ratios for Retirees

Higher loss ratios for retirees have been the experience of the Montana employee group plan for a number of years. When persons retire from employment with the state of Montana, they have the option of continuing state employee health care coverage by paying the full premium and cost shares (2-18-405(5)). Persons who are Medicare eligible must purchase Part A and Part B coverage if they chose to remain in the state plan. Medicare then becomes the primary payor, with the state plan being secondary.

Premium is not defined in statutes governing the state employee group health plan, but has been interpreted to mean the

LFD ISSUE (CONT.)

same monthly cost charged to active employees by type of coverage. The university system also administers a health plan. It charges retirees a higher premium than active employees, but still subsidizes the cost of retiree health insurance.

If the state were required to provide health benefits for retirees at the same premiums as active employees, the estimated unfunded liability would be $449.3 million, a liability for which there is no current funding. The Governmental Accounting Standards Board (GASB) issued Statement Number 45: Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. Health plans are the primary type of post employment benefit addressed by GASB 45, which requires state and local governments to account for unfunded liabilities on government wide annual reports. The estimated unfunded liability is $449.3 million total funds if the current plan structure and eligibility standards are maintained. D of A is introducing a bill (LC0178) to remove the requirement that the liability be recorded on state accounting records.

Pricing for COBRA Plan Participants

Persons leaving state employment (but not retiring) can opt to continue in the state health insurance pool for a specified time, which in most circumstances is 18 months. COBRA stands for the Consolidated Omnibus Budget Reconciliation Act of 1986, which enacted a provision applicable to certain employers and types of health plans. Employees and all covered dependents who lose eligibility for employer group insurance have the right to continue certain coverage by self paying the entire monthly group premium for up to 18 months and in certain situations up to 36 months. Premiums for COBRA participants are limited to 102 percent of premium amounts charged to active employees by federal law. HCBD establishes COBRA premiums at the maximum allowed by federal law.

Legislative Options

The legislature could request that the Legislative Finance Committee in conjunction with the Interim Committee on State Administration and Veterans' Affairs review health plan premium pricing and strategies to help employees save for post retirement health care costs. Specific objectives could include review of:

- Legislative policy with regard to health plan premium pricing
- Other state government health plans and subsidy of retiree participation in those plans
- Legal requirements to provide a subsidy to retirees
- Optional pricing strategies
- Optional methods to allow active employees to set aside funds to pay health costs when they retire
- Legislative action to provide guidance on state health plan premium pricing

The legislature could also request that HCBD establish premiums for retirees equal to the maximum allowable premium for COBRA participants (2 percent more than premiums charged to active employees). On average for each 1 percent increase in cost, monthly premiums increase from $4 to $6 depending on the type of plan and dependent coverage. Based on enrollment as of June 30, 2008, if all retirees paid an additional $4 per month, it would add a minimum of $160,000 revenue annually to the plan.

If the legislature opts to require premiums for retirees to be priced differently than current plan practice, it could help offset some plan losses. However, depending on the change made, it could produce a hardship for some retirees.

Reserve Targets for Group Health Plan

During the 2009 biennium, HCBD adopted a risk-based capital approach to set reserve levels, establishing a range of 200 to 300 percent of calculated risk based capital ratio when determining appropriate levels of reserve funds. The risk-based capital (RBC) model is a methodology promulgated by the National Association of Insurance Commissioners (NAIC) and is used by 47 states. The NAIC risk based capital model is used to determine the level of assets needed in evaluating solvency of domestic health insurance corporations. The model law was approved by the 1995 Legislature and is codified in Title 33, MCA as the regulatory standard applied to health care insurers in Montana. HBCD adopted this model in response to a legislative audit finding and ongoing discussion with the Legislative Audit Committee about the appropriate level of plan reserves. The RBC model was adopted in order to establish a bench mark for the reserve level for future audit review of plan performance.

The RBC formula establishes a minimum capital level needed by a health insurance plan based on its specific features and then compares the minimum level to the plan's actual capital level. This ratio provides a measure to compare to recommended levels of capitalization for insurance risk. Under the RBC approach, a target ratio or a measure known as the "authorized control level" of reserves indicates the financial stability of the insurance plan. Under the NAIC guidelines adopted by Montana, the minimum recommended level of reserves required for a private health insurer is 200 percent of the authorized control level. As an insurer's risk based capital ratio falls below 200 percent, the company is subject to increasing degrees of regulatory oversight and control by the State Insurance Commissioner.

Recommendation of Reserve Level

The actuary contracted to evaluate financial performance of the state employee health plan recommended that the plan establish a reserve level target equivalent to 300 percent of the authorized control level with 200 percent as a minimum level. These benchmarks were adopted by the State Employee Group Benefits Advisory Council, partially in response to a legislative audit finding.

The HCBD notes that the 300 percent benchmark is reasonable compared to private insurance companies in the same marketplace that have much higher reserves levels, ranging from 700 percent to 1,000 percent of the authorized control level. These insurers may also generate more capital through debt, while the State Employee Group Benefit plan cannot. During 2007 Montana insurance carriers maintained reserves that ranged from total adjusted capital amounts of 528 percent to 616 percent. Blue Cross Blue Shield plans in other states had levels that ranged from 786 percent (Idaho) to 1,131 percent (Wyoming).) During 2007, the State Employee Group Benefit plan had reserves equivalent to 269.0 percent of the authorized control level. Subsequently, that percentage has been decreasing.

LFD ISSUE

Grandfathered Reserve

When SABHRS was implemented (1999), an additional month's payment for health insurance was deducted from employee's pay. The division maintains a reserve to refund this payment for employees who incurred the extra cost and reimburses eligible employees when they leave state employment. The original deduction was $295. However, the amount paid to eligible employees is the current monthly state share - $626 for 2009. The annual rate of change between the two amounts is 8 percent per year. The current reserve amount for this future obligation is $1.7 million.

Options

- The legislature could request that HCBD provide the current payout for employees eligible for the grandfathered payment. Depending on the current payment amount, the legislature could request that the division provide the payout at this point in time.
- Another option the legislature could pursue is directing HCBD on the valuation of the individual payout. The legislature could establish a floor and a rate of increase for the one time payout. The floor could start January 1, 2009 at either $590, or $626 the state share for 2008 and 2009 respectively, and then apply a fixed rate of increase, such as the rate of return on HCBD short term investments, the consumer price index, or the health price index.

LFD staff has requested that HCBD provide:

- The number of employees eligible for the future payment
- An estimate of the cost of a payout to current employees by fiscal year end 2009 based on the 2008 state share rate

An estimate of the potential cost of future payout amounts if the payment amount per employee were established at the floor amount of $590 and inflated at the CPI or short term investment pool rate, using the last 5 years annual rates as an example and the impact on the grandfather reserve

LFD ISSUE

Legislative Policy - Level of State Employee Health Plan Reserves

The 2007 General Government Joint Appropriation Subcommittee considered a legislative audit finding addressing reserve levels for the state employee health plan. Proprietary account rates are normally established to provide sufficient operating revenue to fund a 60 day working capital reserve. The audit finding was not specific as to the necessary reserve levels, but did question the amount of plan reserves as potentially being in excess of federally allowable limits approved for proprietary fund 60 day working capital reserve. Subsequent federal interpretations for health insurance funds did not limit reserves to the 60 day level. No decision regarding adequacy of reserve levels was made by the 2007 appropriation subcommittee.

As noted previously, state statute specifically addresses employee health plan reserves, charging the Department of Administration to maintain reserves to cover the unrevealed claim liability and other plan liabilities. However, there is no definition of what that liability is other than the claims that have been incurred but not reported and other known liabilities.

The level of health plan reserves is a matter of legislative policy for several reasons. If a decision were made to transition from a self insurance model to another form of plan administration, maintaining adequate plan reserves to fund the claims payout would be prudent. Plan reserves can help stabilize premium amounts and plan design within a biennium, allowing for gradual changes in the event of unanticipated changes. Plan reserves can maintain sound plan administration if substantial unanticipated claims or cost increases were to occur. Establishing a reserve level target can provide a "tension" between plan benefit design and premium payment to promote a benefit-cost type of decision making about plan changes during the interim between sessions.

The level of reserves maintained by the plan is important for plan administration as well as legislative decisions about the amount of state funding to set aside for employee health plan benefits. If plan reserves are maintained in excess of a level determined prudent by the legislature, the legislature could be constrained from evaluating other appropriation priorities, including potentially altering appropriation requests for benefit increases. Too high a level of reserves can encourage expansion of health benefits without legislative input. Conversely, too low a reserve level could result in plan or pricing changes that legislators may not deem desirable.

Figure 5 shows the level of health plan reserves estimated by the contracted HCBD actuary for plan year 2009 (January 1 to December 31) compared to estimated cash reserves. In total, estimated reserve levels for the 300 percent mark including specific reserves for Incurred but not reported (IBNR) and other specific risks are $12.1 million greater than estimated cash. However, according to plan estimates the reserves are slightly above the 200 percent mark – ranging from 201 to 213 percent depending on adjustments for projected income. The target range (200 to 300 percent of the risk based capital) provides a $10.3 million operating range, a potentially broad range that allows for fluctuations of 20 to 25 percent in the reserve.

Figure 5

HCBD Actuarial Estimate of Health Plan Reserve Requirement - Plan Year 2009

Purpose of Reserve	Amount	% of Est. Cash on Hand
Incurred but not Reported		
Required IBNR Reserve	$10,200,000	24.7%
Grandfathered Benefit	1,700,000	4.1%
Reported IBNR Reserve	$11,900,000	28.8%
Reserves Specific to Montana		
Reinsurance Risk	$2,500,000	6.1%
Reserve for Wellness/ Disease Management	1,382,000	3.3%
COBRA Risk	400,000	1.0%
Medicare Part D	320,000	0.8%
Reimbursement Variability	$4,602,000	11.2%
Total for IBNR and Montana Specific Reserves	$16,502,000	40.0%
Risk Based Capital Ratio Calculation		
300% Target	$36,900,000	89.4%
Total Reserves Required	$53,402,000	129.4%
Estimated Cash Reserve as of 12/31/09	$41,259,536	
Difference	($12,142,464)	-29.4%

LFD ISSUE (Cont.)

Health Plan Reserve Estimate

The actuary provided an estimate for several types of plan reserves. IBNR is a standard calculation to estimate claims coming due within a short period of time. The grandfathered reserve is set aside to reimburse persons employed with the state for the cost of an additional health plan payment when the plan changed its billing cycle in 1998. The LFD issue with regard to the grandfathered reserve is discussed previously.

There are several other specific reserves set aside for the Montana plan. The state plan does not purchase reinsurance for large claims, so there is a reserve. The wellness and disease management program as well as a potential increase in COBRA enrollment have associated reserves. Medicaid Part D reimbursement for drug costs for Medicare eligible plan participants has varied from estimates so there is another reserve.

Finally, the reserve for 300 percent of risk based capital is calculated - $36.9 million and added to all other reserves for a total requirement of $53.4 million. Cash estimates for plan year 2009 are $41.3 million or $12.1 million less than the HCBD recommended level of reserves.

The legislature may wish to review the HCBD reserve target. Other states establish reserve levels from a “pay as you go level” to a range more in line with HCBD recommendation.

The following scenarios help frame a discussion of legislative options.

- What reserve amounts would be needed to pay all liabilities of the health plan if it were discontinued?
- What type of circumstances would require the expenditure of all or a majority of the reserves within a biennium?
- What are legislative financial objectives in health plan management?

The reserves needed to close out the plan if it were terminated would be IBNR and the grandfather reserve - $11.9 million. Past analysis has shown that it is more cost effective to self insure than purchase a product, so this discussion illustrates only the level of reserves needed if the state were to cease being self insured.

While it is possible that circumstances could require expenditure of a large portion of reserves it is an unlikely occurrence. In order for the plan to spend $36.9 million (the 300 percent risk based capital ratio) within a biennium, per person costs would need to rise by $1,578 or about 20 percent annually, from $6,100 to $7,200. The 20 percent annual growth is quadruple the historic growth rate in medical and prescription drug claims from plan year 2000 through plan year 2007, the most recently completed year.

If HCBD expanded coverage, lowered premiums, co-pays, or deductibles such actions could require expenditure of reserves. But it is unlikely that HCBD would take the range of actions that could combine to adversely impact plan revenues to the level that would entirely deplete reserves.

Legislative Options

The legislature has several options in consideration of state employee health plan reserves.

- The legislature can endorse the reserve level targets adopted by the HCBD. The endorsement could be a verbal committee endorsement, a motion voted on by the committee, or a committee bill to amend statute.
- The legislature could review reserve levels established for other public plans to determine a level of reserves based on its policy priorities.

The legislature could request that the Legislative Finance Committee review plan reserves and provide a recommendation to the 2011 Joint Appropriation Subcommittee on General Government.

LFD ISSUE

Consideration of Budget Analysis and Pay Plan Proposal

LFD staff did not receive the details of the Governor's pay plan proposal prior to publication of this volume of the budget analysis. However, if the pay plan fully funds the increase in the employer share of monthly premium based on LFD estimates of the executive proprietary fund information, it would cost about $11.0 million general fund over the biennium.

Integration of Analysis with Consideration of the Pay Plan

This analysis of the state employee group plan discussed two issues that impact the monthly premium - and potentially the employer share - of the employee pay plan: 1) the monthly subsidy for retirees participating in the plan; and 2) the level of plan reserves. The legislature has not considered health plan retiree costs since 2000. While the Legislative Audit Division reviewed the issue of plan reserves, it asked HCBD to identify the reserve benchmark that would guide financial management of the plan and did not consider the effect of the reserve level on monthly premiums.

Budget analysis issues are not routinely integrated into legislative discussions of the executive pay plan recommendation. However, the LFD staff identifies issues as part of its analysis of the health plan proprietary budget that could impact pay plan costs.

Legislative Options

The legislative appropriation subcommittee could consider several alternatives:

- It could request to review the health insurance portion of the pay plan and make recommendations to the House Appropriations Committee and Senate Finance and Claims Committee
- It could request that the House Appropriations Committee and Senate Finance and Claims Committee consider budget analysis issues related to the executive pay plan when committees consider the pay plan bill is proposed

LFD ISSUE

Adequacy of Pay Plan Employer Share Increase

If the executive pay plan includes a $53 and $54 monthly increase in the employer share for state employee group health benefits as estimated from the proprietary rate information submitted in the executive budget request, the legislature may wish to request information from HCBD about other potential cost increases for plan participants during the 2011 biennium. Health plan costs have increased above the level anticipated during the 2009 biennium and HCBD has attempted to maintain reserves within the target range, resulting in cost increases for dependent coverage in 2009 and probably again in 2010.

Legislative Option

The legislature may wish to ask HCBD for its most recent cost projections for the current year and for the 2011 biennium compared to estimated revenue from any pay plan proposal. It may also wish to ask what types of changes might need to be made to balance revenues and costs, particularly if the plan wants to establish a minimum of 200 percent of the risk based capital ratio.

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- Goals, objectives and year-to-date outcomes from the 2009 biennium
- Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Goal 1: Maintain financial stability of the state employee health benefits fund.

- Objective: Maintain combined medical and pharmacy trend for active employees and non-Medicare retirees at or below national trends.

LFD ISSUE

Objective is not Measurable and There are No Goals or Measures Related to Primary Program Purposes

Maintaining the financial stability and managing cost growth is central to successful administration of a health plan. As discussed previously, HBD has adopted a target for reserve levels. However, this target is not included in either a goal or objective to measure financial stability.

The lone objective to evaluate whether the plan is financially stable has no bench mark to assess whether the objective has been met. Also, managing cost trends, while very important, may not be a sufficient indicator of financial health. Objectives may need to be supplemented by other data, such as the targets for reserve levels adopted by the division, and evaluation of the adequacy of premium payments.

Goals and Objectives are not Related to Primary Purpose of Providing Health Services

The executive budget does not contain any goal or measures to evaluate the employee benefits program. There are no measures to quantify for legislators, employees, or the public what is being purchased for an expenditure of $100 million per year. There are no measures or outcomes to determine whether the programs are effective, and if so, to what degree.

Outcome measures would allow the legislature, state employees, and the public to evaluate the program, understand better the administrative successes and challenges, and assess changes the division might suggest or request. The legislature would be able to make (and explain) appropriation decisions based on data.

Options:
The legislature may wish to discuss with the division the information it uses to assess health related outcomes of services provided or any goals and measures that have been established to assess outcomes of the group insurance plan or the wellness programs as well as other measures of financial stability. If the division has other goals and measures, the legislature may wish to add those goals and measures to the fiscal report. If the division does not have SMART (specific, measureable, achievable, realistic, and time bound) measures that it uses to evaluate financial stability and expenditure outcomes, the legislature could ask that the division suggest some that it would find useful for program administration.

Goal 2: Reduce the number of loss time injury claims by early return to work (ERTW) placements.

- Objective: Increase ERTW placements by ten percent each year of biennium.

LFD COMMENT

2009 Biennium General Fund Savings

The workers' compensation program has produced an estimated $10.6 million in general fund savings. The specific measures taken and estimated savings are discussed in the narrative describing the new proposal to continue the program. Some of the savings were not anticipated when the program was initially proposed, but far exceed the cost of the program. The goal adopted to measure success of continuing the program will also result in ongoing savings to the state.

LFD ISSUE

There is no Bench Mark to Evaluate Success

The division has adopted a specific goal to reduce loss time. However, the measure to determine whether the goal is being met does not have a bench mark for the number of placements at a specific point in time. Without a bench mark, it is not possible to tell whether placements have increased and the objective has been met.

Options
The legislature could discuss with the HCBD objectives that will allow it to determine whether the goal has been met. The legislature may also wish to ask the Legislative Finance Committee to track the goal to during the 2011 biennium. The legislature could opt to continue some of the performance criteria adopted by the 2007 Legislature.

Goals Adopted by the 2007 Legislature

The 2007 Legislature funded the Workers' Compensation Management Program with a one time appropriation in order to evaluate its effectiveness and determine whether the program should continue. The legislature reviewed goals and objectives when it approved the appropriation and adopted the performance criteria submitted in the executive budget, which are listed below. The legislature also added the following goal to the set of evaluation criteria: Reduce the number of work-time loss injury claims among employees by 50 percent during the 2009 biennium.

<u>2009 Biennium Executive Budget Performance Criteria</u>

- Timely completion of all milestones identified in the work plan to implement this program;
- The experience 'mod-factor' for workers' compensation would be used as a measure of progress. The number of state agencies or entities achieving a mod-factor below 1.0 would be compared to the most recent annual data available. For agencies with mod factors below 1.0, the goal would be to sustain the mod-factor level. For agencies above 1.0, the goal would be to achieve a mod-factor of 1.0 or lower. The number of injuries and illnesses for each agency would also be measured and compared to the most recently completed base year as a measure of progress;
- In accident year 2004 (the most recent year with 'developed' history) the state had 221 wage-loss claims. The goal would be to reduce this number to fewer than 200 during 2008 and 2009;
- In addition to reducing the underlying claims which drive the premiums, the division would evaluate alternative rating methods and plan designs (e.g. changes in retention plan, deductible programs), review business processes impacting the rates as permitted by law (e.g. reserving of claims, case management of claims, etc.), and negotiate on the state's behalf for the most favorable workers' compensation premiums during the 2009 biennium. The goal would be a funding arrangement that provides proper incentives for the insurer (Montana State Fund), the employer and the employees to improve employee outcomes and reduce costs. Progress toward the goal would be measured by the rate of increase in workers' compensation premiums for state agencies compared to other Montana employers and the number of other processes and methods identified that would reduce costs; and
- Early-return-to-work (ERTW) functions would be coordinated or put in place across state government during the biennium. The average time away from work due to injury would be measured with and without these services under programs provided by Montana State Fund or by a third-party administrator (funding requested). Where data on overtime or additional costs incurred by agencies as a result of the temporary loss of the worker can be determined, this measure would also be reported.
- Other performance criteria include:
    - Number of agencies that incorporate safety as a component of their employee and management performance structure (job description and performance appraisals)
    - Number of ergonomic assessments completed
    - Number of safety consultations and trainings completed
    - Physical plant repairs/safety mitigations completed in response to injury reports (slips, trips and falls)
    - Compliance of agencies with required components of the Montana Safety Culture Act

- o A website with access to agency level workers' compensation data and reports, links to Montana State Fund data and reports, links to the Department of Labor and Industry (Safety Bureau and Employment Relations Division) and to other resources would be developed to provide individual agency personnel with support and tools to assist in managing their workforce relative to workers' compensation and exchange information among state agencies for best practices in workforce management relative to workers' compensation issues.

Workers' compensation data is delayed for more than a year. HCBD is developing a data base and attempting to acquire data from the State Fund. There was insufficient data available to calculate results for some of the performance criteria. However, the legislature could request that the division provide what data it can regarding the 2009 biennium performance measures.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Health Care and Benefits Division - Funding

Account Name/Funding	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
State Special Revenue	$43,116	$5,285	$48,401	$7,151	$50,267
Proprietary Funds	122,153,440	18,469,326	140,622,766	29,244,558	151,397,998
Total Funds	$122,196,556	$18,474,611	$140,671,167	$29,251,709	$151,448,265

HCBD is funded predominantly with proprietary funds from employer contributions to health care and life insurance costs, premium payments by plan participants, investment income, and assessments to manage flexible spending accounts as well as the new proposal for the workers' compensation program.

The single largest expenditure is for health care benefits. FY 2008 expenditures for the health care benefits program were about $112.3 million compared to proprietary revenues of $118.7 million. Most of expenditures ($104.6 million) paid medical and drug costs. Most of the revenue ($87.1 million) was the employer share and employee supplemental payments for insurance premium payments from the following sources:

- o General fund - $35.2 million
- o State special revenue - $30.2 million
- o Federal funds - $13.5 million
- o Other funding sources such as capital project funds - $8.9 million

Proprietary income also included self payments from retirees ($15.5 million), and legislators and persons continuing coverage through COBRA payments ($0.7 million).

Another $2.2 million was due to reimbursement for prescriptions for Medicare eligible retiree participants and volume discounts. A net $1.9 million of the income was due to earnings on short and long term investments on cash reserves ($41.5 million as of June 30, 2008).

As noted in the division overview, general fund supported about 40 percent of health care premium income in FY 2008 and state special revenue about 34 percent. Figure 6 shows the fund source for health insurance premium income since FY 2001.

Figure 6

Fund Source Paying State Employer Group Health Share

Fund	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	% of Ttl
General Fu	$15,508,251	$17,322,341	19,643,980	22,817,106	24,749,578	26,755,144	31,246,579	35,169,026	40.1%
State Spec	14,233,429	14,412,732	16,436,633	19,669,630	22,480,488	24,339,999	27,187,555	30,151,179	34.4%
Federal Fu	6,604,240	7,279,736	8,546,292	10,318,693	11,789,809	12,066,609	13,270,723	13,475,906	15.4%
All Other*	4,081,839	4,601,355	4,899,742	5,865,448	6,797,151	7,262,667	8,105,970	8,861,337	10.1%
Total	$40,427,760	$43,616,165	$49,526,648	$58,670,877	$65,817,025	$70,424,419	$79,810,826	$87,657,448	100.0%
Annual Increase		7.9%	13.6%	18.5%	12.2%	7.0%	13.3%	9.8%	

*Includes proprietary funds, pension trust funds, capital projects funds

The flexible spending account program reimburses about $7.0 million annually in pay check deferrals set aside by employees to pay child care and health care costs during the year. The program recouped about $136,000 in fee income in FY 2008, from a $2.25 per month administrative fee.

The division appropriation includes a small amount of state special revenue to pay for lease costs for a day care program for state employees in Helena. The division receives contributions from state agencies through an annual memorandum of understanding between the division administrator and the director of each state agency. The allocation of these contributions is based upon the number of Helena area employees at each agency. The division pays for a portion of the lease payments for day care facility, minor repairs necessary to operate the daycare, and a small part of the statewide allocated costs.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

State Employee Group Health Plan - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	($698,485)	($706,496)
DP 106 Allocate Department Indirect Costs	64,985	65,595
DP 2102 HCBD Insurance Claims/Admin Cost Trends	18,216,871	28,635,387
DP 2104 Daycare Lease Rate	5,285	7,151
DP 2107 Annual 5% Increase in Flexible Spending	343,944	705,083
Total Present Law Adjustments	$17,932,600	$28,706,720
State Special Revenue	$5,285	$7,151
Proprietary Funds	17,927,315	28,699,569
Total Funding	$17,932,600	$28,706,720

Present law adjustments add a net total of $46.6 million over the 2011 biennium. With one very small exception for a HB 2 appropriation for the day care lease, the adjustments are funded from proprietary funds. The most significant adjustment adds spending authority for expected inflation and utilization increases for the employee health plan ($45.9 million). The present law adjustments for the state employee health plan are equivalent to a $53 per month cost per health plan enrollee in FY 2010 and a per month cost of $54 in FY 2011 based on enrollment levels estimated by HCBD.

A part of the present law increase as well as all other present law adjustments are offset by statewide adjustments that remove $1.4 million. The statewide reduction is due to an internal reorganization of human resources functions and SABHRS administration that consolidates those functions in other DofA programs.

LFD COMMENT

Statewide Adjustment Removes too Much Money

The statewide adjustments for the HCBD include two significant reductions. One reduction for $1 million to reflect an internal reorganization within DofA is overstated. The department will bring a correction to the appropriation subcommittee.

<u>DP 106 – Allocate Department Indirect/Admin Costs-</u> This request adds about $130,000 proprietary funds over the biennium to pay for services provided by proprietary funded centralized service functions of the agency.

DP 2102 - HCBD Insurance Claims/Admin Cost Trends - This adjustment adds $47.0 million in proprietary funds, including $44.7 million for inflationary and utilization increases in the state employee health plan. HCBD estimates use an average annual increase of 8 percent in medical claims and 11 percent in prescription drug costs.

Claims administration and operating costs are also predicted to increase at a 5 percent annual rate. This adjustment also adds $2.0 million in proprietary authority to cover those increases.

The funding for the state employee group benefits plan (benefits and administrative costs) comes from the state share contribution provided for in 2-18-703, MCA, and the pay plan bill. In addition, retirees and members who cover their dependents contribute toward premiums out-of-pocket.

LFD COMMENT

There are several issues related to the present law adjustment for health claims costs discussed in the division overview:

- Subsidies to retirees who participate in the state plan
- Reserve levels have not been reviewed by the legislature
- The process to integrate review of the health plan budget request could be integrated with consideration of the pay plan bill

DP 2104 - Daycare Lease Rate - In November 2005, the Health Care and Benefits Division (HCBD) renegotiated its lease with the Helena School District for daycare facilities located at the Ray Bjork School. Following the three year contract, the lease agreement allows for annual renewals with a rent rate increase equal to the current cost per square foot multiplied by the CPI index for all urban consumers for the previous year. The HCBD renewed the lease at a monthly rate for FY 2008 of $3,593 ($43,116 annually). Discussions for renewal for FY 2009 will be held late in April 2008. It is assumed at this time that the monthly rate for FY 2009 will increase by 4.0 percent to $3,737 ($44,841 annually) and will continue at that rate during the 2011 biennium. A major driver in the increase in lease costs has been an energy surcharge passed onto the state from the school districts. In order for the state to fund its total obligation per the lease agreement throughout the 2011 biennium, the division requests additional authority of $5,285 for FY 2010 and $7,151 for FY 2011.

DP 2107 - Annual 5% increase in Flexible Spending – This request adds $1.0 million in proprietary spending authority over the 2011 biennium for an estimated annual 5 increase. Participants contribute excess state contribution and personal funds to the program to be used for qualifying health and child care costs on a pre-tax basis. In addition, program participants pay a program administration fee to cover the costs of administering the program.

LFD ISSUE

Administrative Fee May be too High

The legislature may wish to review fees established to support the flexible spending account administration. The issue is discussed in greater detail in the proprietary rate discussion section.

This request adds $1.0 million in proprietary spending authority over the 2011 biennium for an estimated annual 5 increase. Participants contribute excess state contribution and personal funds to the program to be used for qualifying health and child care costs on a pre-tax basis. In addition, program participants pay a program administration fee to cover the costs of administering the program.

New Proposals

State Employee Group Health Plan - New Proposals

DP Name	FY 2010	FY 2011
DP 2101 Workers' Compensation Program - 3.00 FTE	$389,565	$395,171
DP 2103 SABHRS Support Provided by HCBD - 1.00 FTE	68,112	68,133
DP 2108 Attorney FTE	83,778	81,204
DP 6101 Fixed Cost Workers Comp Mgmt Program Allocation	556	481
Total New Proposals	$542,011	$544,989
Total Per Member Per Month Impact for Group Health Plan	$2.88	$2.90
	15658 enrollees as of June 30, 2008	

New proposals add $1.1 million proprietary funds over the 2011 biennium, including a new proprietary funded program to support centralized administration of workers' compensation insurance as well as safety and early return to work programs. New proposals add 5.00 FTE – three for the workers' compensation program and an attorney and a systems analyst for group benefits. The new proposals are equivalent to an $0.80 per month cost per health plan enrollee based on enrollment levels June 30, 2008.

DP 2101 - Workers' Compensation Program 3.00 FTE - HCBD is tasked with the implementation, management and oversight of the State of Montana Workers' Compensation Management Program. This program was a new initiative from the 2009 biennium Governor's budget. The goal of the program is to reduce workers' compensation costs and injuries in state government. The program was funded by the 2007 Legislature with a one-time-only general fund appropriation. This proposal implements a new fixed cost allocated to all agencies to continue the program. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process. For the 2011 biennium only, each agency includes a new proposal "NP 6101 – Fixed Cost Workers' Comp Management Program Allocation" to request funding for this fixed cost allocation.

DP 2103 – SABHRS Support Provided by HCBD- 1.00 FTE - This request adds $136,000 proprietary funds over the biennium for a computer systems analyst. The position was approved as a modified FTE during the 2009 biennium and is responsible for providing production support for all users of the PeopleSoft Benefits Module within the state's People Soft Human Resource Management System.

These duties include ensuring that the division's benefit eligibility business processes interface with SABHRS and systems operated by multiple benefit contractors, resolving user problems, assisting with report development and determining business processes that maximize the utilization of functionality offered by the current and upcoming versions of PeopleSoft, planning and executing extensive testing of new queries, reports and overall business processes, and coordinating efforts between the State Human Resource Division and the HCBD on areas where system functionality impacts employee benefits.

DP 2108 - Attorney FTE - This request funds 1.00 FTE for an attorney in HCBD. Previously the division shared a portion of two attorneys within the department and provided funding for 0.50 FTE. This request is due to increases in work load within the department and added responsibilities for the division require additional resources to provide necessary legal support.

LFD COMMENT

LFD staff has requested the total program expenditures for attorney services in order to determine whether HCBD still funds the attorney positions within the department. If not, the amount of proprietary funds for this position could be reduced.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 Biennium and beyond, the program will be funded via a fixed cost allocation. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. The budget includes $556 in FY 2010 and $481 in FY 2011 proprietary funds for the Department of Administration allocation of the fixed cost.

Language and Statutory Authority

"The department is appropriated up to $500,000 of state special revenue each year of the biennium to assist agencies in reducing workers' compensation injuries and costs. These funds may not be expended for activities that duplicate other agency expenditures or programs."

Proprietary Program Description-State Employee Group Benefits

The employee benefits program is charged with providing state employees, retirees, members of the legislature, judges and judicial branch employees, and their families with adequate medical, dental, prescription drug, life, and other related group benefits in an efficient manner and at an affordable cost. The program operates a self-insured health, prescription drug, and dental plan and members can also choose among three managed care plans. Life, long-term disability, vision, and long-term care insurance are purchased from private sector vendors on a fully-insured basis. The program contracts with private companies to provide claims processing services, health screenings, an employee assistance program, flexible spending account administration and wellness plan administration.

The program is funded by the state contribution for group benefits and by premiums and fees paid by plan members. The program currently supports 13.87 FTE.

Alternate Sources: As an alternative to providing a self-insured health plan, the state could purchase an insured plan from the private sector. Historical studies of comparable insurance plans have shown that this alternative would be more expensive. The state has operated a statewide plan since 1979 and a self-insured plan since 1984.

Customers Served: In excess of 32,000 people are covered by the benefit plans administered by the division in the following categories; 12,600 regular full-time and part-time executive, legislative, and judicial branch employees; 3,300 retirees; 16,500 dependents; and 60 COBRA participants. (COBRA stands for the Consolidated Omnibus Budget Reconciliation Act of 1986, which enacted a provision applicable to certain employers and types of health plans. Employees and all covered dependents who lose eligibility for employer group insurance have the right to continue certain coverage by self paying the entire monthly group premium for up to 18 months and in certain situations up to 36 months.)

Proprietary Revenues and Expenses - No significant changes in service are contemplated. The primary cost drivers are inflationary increases, service utilization growth, and development of new technologies in health and prescription drug services.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
065559	Employee Health Benefits	6101	Administration	Health Care and Benefits Div

Expense/Revenue/Net Assets	Actual FY08	Budgeted FY09	Projected FY10	Projected FY11
Operating Expenses:	13.87	13.87	15.87	15.87
Personal Services	$795,179	$808,961	$1,076,961	$1,077,753
Benefits and Claims	111,492,958	123,739,781	131,933,609	142,341,306
Total Operating Expenses	$112,288,137	$124,548,742	$133,010,570	$143,419,059
Operating Revenues:				
Revenue From Fees/Premiums	$113,849,387	$122,459,131	$129,758,895	$140,548,518
Investment Earnings	1,835,950	1,123,000	1,500,000	1,500,000
Securities Lending Income	131,476	0	0	0
Other Operating Revenues	2,851,735	688,000	1,960,000	1,960,000
Total Operating Revenue	$118,668,548	$124,270,131	$133,218,895	$144,008,518
Operating Gain (Loss)	$6,380,411	($278,611)	$208,325	$589,459
Nonoperating Sources (Uses)	0	0	0	0
Net Assets as of July 1 (Start of Fiscal Year)	0	6,380,411	6,101,800	6,310,125
Net Increase (Decrease) of Net Assets	6,380,411	(278,611)	208,325	589,459
Prior Period Adjustments	0	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of June 30 (End of Fiscal Year)	$6,380,411	$6,101,800	$6,310,125	$6,899,584
IBNR and Grandfathered Reserve*	$11,260,000	$12,496,842	$13,324,361	$14,375,465
Percent of Total Claims	10.1%	10.1%	10.1%	10.1%

*Estimated from actuarial estimates for plan years 2008 and 2009.

Requested Rates for Internal Service Funds

Fee/Rate Information for Legislative Action

Base Rate	Actual FYE 08	Budgeted FY 09	LFD Estimate FY 10*	LFD Estimate FY 11*
State Share per Employee per Month*	$574	$608	$661	$715

Rates are established to maintain adequate actuarial reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average monthly state share rate for FY 2008 and FY 2009. The LFD had not received the executive pay plan as of November 30, 2008, so rates for FY 2010 and 2011 were derived by the LFD from the information submitted in the executive request.

The executive budget assumes that medical claim costs will increase 8 percent annually and that drug claims will increase 11 percent annually during the 2011 biennium. Beginning in FY 2009, the deductibles, premiums for dependent coverage, and out of pocket costs for prescription drugs were raised across all plans in order to cover higher than anticipated plan losses expected in FY 2009.

Working Capital – The HCBD maintains an actuarially recommended reserve to allow it to cover health claims payable by the self-insured plan. By statute (2-18-812, MCA), the plan must maintain reserves sufficient to "liquidate the unrevealed claim liability and other liabilities of the state employee group benefits plans". The reserves called incurred but not reported claims (IBNR) permit the program to cover its pending liability for claims for services that have been provided but not yet paid or submitted for payment. Other portions of the reserves are to cover items such as the risk of large claims (the state does not reinsure its claim liability), overall underwriting risk (based on a national formula), risk for certain types of coverage categories, and unique aspects of the state plan.

Rate Explanation – The rate approved in 2-18-703(2), MCA effective January 2009 is $626 per month employer contribution, i.e. the employer share of premium toward health care and benefits coverage. As a component of employee compensation, the state contribution amount is a subject of collective bargaining and is negotiated as a part of the overall pay package for state employees. Changes to the employer share of premium are approved in the pay plan bill (HB 13).

The objective for the state contribution is to provide sufficient dollars to underwrite affordable coverage for all participants in the plan including sufficient dollars to cover the "employee only" cost of providing a core medical, dental, and life insurance benefit. Historically, there have been a few dollars of the state contribution left over that employees can apply toward dependent coverage, additional life insurance, purchase of optional benefits, or to place into a medical or dependent care flexible spending account (FSA).

Standard insurance industry analytical techniques are used to project plan costs, establish sufficient actuarial reserves, and set premium amounts for the various plan options. In managing the plan the department can increase income by raising participant premiums or reduce expenses by lowering the amount of plan coverage. Plan coverage changes include increasing participant deductibles and co-payments, eliminating the payment for some services, negotiating lower costs for medical services, or looking for opportunities to reduce the cost of services provided using knowledge of the given health care environment.

Proprietary Program Description-Flexible Spending Accounts
HCBD contracts to administer a flexible spending account program for state employees, who can elect to set aside a certain amount of their pay into accounts to pay dependent care and out-of-pocket medical costs. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims to use funds deposited in the accounts for allowable expenses. Employees forfeit any unspent funds. Federal rules govern the use of and the amount that can be contributed to flexible spending accounts.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06027	Flex Accounts	61010	Health Care and Benefits Division

Expenses/Revenues/Change in Assets	Actual FY08	Budgeted FY09	Budgeted FY10	Budgeted FY11
Operating Expenses:				
Personal Services	$0	$0	$0	$0
Other Operating Expenses	6,879,408	5,871,463	7,222,796	7,583,935
Total Operating Expenses	6,879,408	5,871,463	7,222,796	7,583,935
Operating Revenues:				
Revenue from Administrative Fees	135,832	0	0	0
Investment Earnings	22,028	12,370	25,000	25,000
Securities Lending Income	710	0	0	0
Premiums	7,112,796	5,973,151	7,650,000	8,000,000
Total Operating Revenue	7,271,366	5,985,521	7,675,000	8,025,000
Operating Gain (Loss)	391,958	114,058	452,204	441,065
Net Assets as of July 1 (Start of Fiscal Year)	672,734	1,064,692	1,178,750	1,630,954
Net Increase (Decrease) of Net Assets	391,958	114,058	452,204	441,065
Cumulative Effect of Account Change	0	0	0	0
Total Net Assets - July 1 - as Restated	672,734	1,064,692	1,178,750	1,630,954
Net Assets June 30 (End of Fiscal Year)	**$1,064,692**	**$1,178,750**	**$1,630,954**	**$2,072,019**
45 Days of Expenses (Total Operating Expenses Divided by 8)	$859,926	$733,933	$902,850	$947,992

Requested Rates for Enterprise Funds
Fee/Rate Information

Administrative Fee	Actual FYE 08	Budgeted FY 09	Budgeted FY 10	Budgeted FY 11
Per Member per Month	$2.25	$2.25	$2.25	$2.25

Administrative fees charged and collected from plan participants are determined through the competitive bid process as part of the selection of a plan administrator.

<u>Alternate Sources:</u> The alternative to contracting for administration of the program is for the division to assume administration and management. It is not clear that division administration would be more efficient than contract administration.

<u>Customers Served:</u> About 5,000 employees participate in the flex account spending program.

Proprietary Revenues and Expenses – The flexible spending account program is funded from an administrative fee of $2.25 per month on each account.

Proprietary Program Description- Workers’ Compensation Management Program
HCBD requests establishment of a propriety fund to support a centralized management program for oversight of workers' compensation containment efforts. HCBD is requesting 3.00 permanent FTE-a bureau chief, an early-return-to-work specialist, and a safety specialist. The total authority requested is $389,565 plus $64,927 to provide for 60 days of working capital for FY 2010 and $395,171 for FY 2011.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06575	Worker's Comp Mgmnt Program	61010	Health Care and Benefits Division

Expenses/Revenues/Change in Assets	Actual FY08	Budgeted FY09	Budgeted FY10	Budgeted FY11
FTE			3.00	3.00
Operating Expenses:				
Personal Services	$0	$0	$247,587	$251,150
Other Operating Expenses	0	0	141,978	144,021
Total Operating Expenses	0	0	389,565	395,171
Operating Revenues:				
Revenue from Administrative Fees	0	0	454,493	395,171
Total Operating Revenue	0	0	454,493	395,171
Operating Gain (Loss)	0	0	64,928	0
Net Assets as of July 1 (Start of Fiscal Year)	0	0	0	64,928
Net Increase (Decrease) of Net Assets	0	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of June 30 (End of Fiscal Year)	**$0**	**$0**	**$64,928**	**$64,928**
60 Days of Expenses (Total Operating Expenses Divided by 6)	$0	$0	$64,928	$65,862

Requested Rates for Enterprise Funds
Fee/Rate Information

Administrative Fee	Actual FYE 08	Budgeted FY 09	Budgeted FY 10	Budgeted FY 11
Amount per Payroll Warrant per Pay Period	$0.00	$0.00	$1.29	$1.12

Program rates have been established to maintain a 60-day working capital. The rates are to be paid by state agencies and are based on a projected number of payroll warrants to be issued.

Note: Prior to FY 2010, the program expenditures were funded from an OTO general fund appropriation.

During the 2009 biennium, OTO funds totaling $767,369 general fund were appropriated in HB 2 for the program to fund 3.00 FTE, a contract with a third party administrator for the early-return-to-work programs, and loss prevention outreach campaigns and education.

Initial program activities produced an estimated $10.6 million general fund savings. Several milestones and related general fund savings were:

- Authorization to Act agreements were signed by state agencies, the Department of Administration and Montana State Fund. These authorizations allow the HCBD to manage all workers' compensation matters on behalf of all state agencies.
- The rate negotiations for the 2008 and 2009 policy years have been completed. The 2008 negotiations resulted in a 4.2 percent premium increase compared to 21.5 percent premium increase over the previous five years. The 2009 negotiations resulted in a 2 percent rate decrease. General fund savings are estimated to be $6.5 million annually (based on renewals).
- Oversight activities resulted in retention returns for the 2005 and 2006 policy years. General fund savings was $2.5 million.
- The early-return-to-work program for injured workers continues implementation. Safety program development and physical work environment reviews and mitigations have been undertaken with an estimated general fund savings of $1.4 million.
- HCBD is accumulating and consolidating data to permit efficient management and accurate decision-making by stakeholders. The data required for basic management is being collected from Montana State Fund although it has not provided all the information requested. Additional computer programming and data site design is in progress.
- The payment schedule of workers' compensation premiums was changed from monthly to quarterly. General fund interest earnings increased $0.1 million annually.

Alternate Sources: The alternative to centralizing administration of workers' compensation and early return to work programs is to return to individual agency program administration. The initial success in lowering premiums and establishing early return to work programs indicates that central administration is more cost effective.

Customers Served: Each state agency has signed an Authorization to Act agreement. Injured employees are customers of the early return to work program.

Rate Explanation

The workers' compensation program will be funded by a fee assessed for each warrant or payroll advice issued by an agency. The FY 2010 rate is budgeted at $1.29, with $0.18 of the rate funding the 60-day working capital balance, and drops to $1.12 in FY 2011. Each agency budget request includes a new proposal decision package numbered "NP 6101 – Fixed Cost Workers' Comp Management Program Allocation" for the new proprietary program.

Language and Statutory Authority

The department is requesting a language appropriation to assist agencies in reducing injuries and compensation costs.

"The department is appropriated up to $500,000 of state special revenue each year of the biennium to assist agencies in reducing workers' compensation injuries and costs. These funds may not be expended for activities that duplicate other agency expenditures or programs."

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	19.53	19.53	20.03	20.53	19.53	20.53	1.00	5.12%
Personal Services	1,085,933	1,268,479	1,318,449	1,350,873	2,354,412	2,669,322	314,910	13.38%
Operating Expenses	318,393	252,640	423,161	374,000	571,033	797,161	226,128	39.60%
Total Costs	**$1,404,326**	**$1,521,119**	**$1,741,610**	**$1,724,873**	**$2,925,445**	**$3,466,483**	**$541,038**	**18.49%**
General Fund	1,404,326	1,521,119	1,741,610	1,724,873	2,925,445	3,466,483	541,038	18.49%
Other	0	0	0	0	0	0	0	n/a
Total Funds	**$1,404,326**	**$1,521,119**	**$1,741,610**	**$1,724,873**	**$2,925,445**	**$3,466,483**	**$541,038**	**18.49%**

Program Description

The State Human Resources Division provides the following statewide human resource services and programs

- Human resource rules, policies and standards for Executive Branch agencies
- State labor relations, representing the Governor's office in all matters relating to collective bargaining
- Training and other professional development services to state agencies and other organizations.
- The human resources information services, supplying payroll and other human resource information systems for all branches of state government

Program Highlights

Department of Administration
State Human Resources Division
Major Budget Highlights

- ♦ The division was renamed in a reorganization and the responsibility for operation of human resources systems of the state accounting, budgeting, and human resources system was transferred to the division
- ♦ General fund increases $541,000, or 18.5 percent
  - Statewide present law adjustments account for 72 percent of budget adjustments with most costs in personal services
  - A funding switch to fund a proprietary funded 1.00 FTE with general fund adds $103,000 general fund
  - Unspecified funding for workplace accommodations for disabled employees adds $50,000 general fund

Major LFD Issues

- ♦ Performance objectives could be strengthened

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

During the 2009 biennium, the Legislative Finance Committee monitored the following goal for the division and determined progress was on track for attaining the objectives but identified no noteworthy successes or challenges:

- o The State Human Resources Division will assist executive branch agencies in the implementation of the broadband pay plan

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goal for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

- o Provide value-added leadership for human resources in Montana state administration
    - Promote and support agencies' strategic use of the broadband pay plan
    - Provide professional expertise to agencies in the areas of classification and compensation
    - Develop a model performance management system
    - Establish a workplace diversity program
    - Develop a communications and marketing plan
    - Establish and promote collaborative labor-management in state government
    - Recruit, retain, and develop expert-level human resources, labor relations, and professional development staff
    - Support and promote statewide professional development in human resource management
    - Routinely review, revise, and develop administrative rules and employment policies and guides for relevance and value in Montana state government

LFD ISSUE

Objective Could be Strengthened by More Specific Performance Indicators and Milestones

The objectives for this goal fail to include performance indicators or timing information that would allow the legislature to formulate an appropriations policy for this function and at a later date determine if the goal was attained. Montana is facing the imminent retirement of a significant population of its workforce. The goal and associated objective imply that the division would provide valuable counsel for state agencies to mitigate the impacts of this retirement event. However, specifics of what would be achieved, how the divisions actions would be measured, and when progress could be assessed to determine if value is truly being added by the division's efforts are not stated.

The legislature may want to discuss with the division what specific actions are planned within the budget, how the division would assess to determine if the actions are achieving their intended outcomes, and when the division would expect to determine if agencies are in a better position to overcome the human resource obstacles of the impending retirement bubble.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table
State Human Resources Division

Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	$ 1,404,326	100.0%	$ 1,741,610	100.0%	$ 1,724,873	100.0%
	01100 General Fund	1,404,326	100.0%	1,741,610	100.0%	1,724,873	100.0%
06000	Total Proprietary Funds	-	-	-	-	-	-
	06525 Intergovernmental Training	-	-	-	-	-	-
Grand	Total	$ 1,404,326	100.0%	$ 1,741,610	100.0%	$ 1,724,873	100.0%

Funding for statewide human resources rules, policies, and standards and labor relations are from the general fund. The Professional Development Center is funded with proprietary fees charged to state agencies for training services. Payroll and other human resources information systems are funded with proprietary fees charged to state agencies for payroll processing services. The proprietary funded portions of the division are not shown on the main budget tables, but are discussed in the proprietary rates at the end of the section for the division.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	1,404,326	1,404,326	2,808,652	81.02%	1,404,326	1,404,326	2,808,652	81.02%
Statewide PL Adjustments	235,565	238,900	474,465	13.69%	235,565	238,900	474,465	13.69%
Other PL Adjustments	5,023	5,540	10,563	0.30%	5,023	5,540	10,563	0.30%
New Proposals	96,696	76,107	172,803	4.98%	96,696	76,107	172,803	4.98%
Total Budget	**$1,741,610**	**$1,724,873**	**$3,466,483**		**$1,741,610**	**$1,724,873**	**$3,466,483**	

Program Reorganization

The department reorganized several functions following the 2007 Legislature. The reorganization impacted the division first through a name change from the State Personnel Division to the State Human Resources Division. Beyond the name change the Office of Labor Relations was moved back to the division from the Director's Office and the functions responsible for the operation of the human resources systems of the State Accounting Budgeting and Human Resources (SABHRS) were moved from the Administrative Financial Services Division.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010 FTE	Fiscal 2010 General Fund	Fiscal 2010 State Special	Fiscal 2010 Federal Special	Fiscal 2010 Total Funds	Fiscal 2011 FTE	Fiscal 2011 General Fund	Fiscal 2011 State Special	Fiscal 2011 Federal Special	Fiscal 2011 Total Funds
Personal Services					249,240					252,295
Vacancy Savings					(53,405)					(53,528)
Inflation/Deflation					937					1,161
Fixed Costs					38,793					38,972
Total Statewide Present Law Adjustments					**$235,565**					**$238,900**
DP 106 - Allocate department indirect/admin costs	0.00	5,023	0	0	5,023	0.00	5,540	0	0	5,540
Total Other Present Law Adjustments	**0.00**	**$5,023**	**$0**	**$0**	**$5,023**	**0.00**	**$5,540**	**$0**	**$0**	**$5,540**
Grand Total All Present Law Adjustments					**$240,588**					**$244,440**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate**
    - The statewide personal services adjustment represents salaries for the division at an estimated 95 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 104 percent of market relative to the 2006 executive branch market survey
- **Vacancy**
    - The division has identified no occupational groups that pose difficulties of high turnover or difficulties in recruitment and retention
- **Legislatively applied vacancy savings**
    - The division used normal turnover and when vacancies occur, held positions open in order to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT

In terms of FTE-hours, the division experienced a 14.5 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature, as adjusted for the reorganization mentioned above, by 14.2 percent.

- **Pay Changes**
    - Pay increases given to division HB 2 staff were for the 3.0 percent fixed and 0.6 percent flexible increases funded in HB 13 of the 2007 Legislature and market, situation, and strategic pay adjustments outside of HB 13 funding to address market and retention issues on specific individuals

- **Retirements**
    - The division has eight individuals eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium but doesn't anticipate they will retire in the 2011 biennium, and so anticipates no unfunded compensated absences will be paid in the 2011 biennium

<u>DP 106 - Allocate department indirect/admin costs -</u> An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals

Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
	Fiscal 2010					Fiscal 2011				
DP 2301 - Training Development Spec. FTE Funding Switch										
23	0.50	36,681	0	0	36,681	1.00	66,173	0	0	66,173
DP 2302 - Interagency Disabilities Advisory Council										
23	0.00	9,408	0	0	9,408	0.00	9,408	0	0	9,408
DP 2303 - Workplace Accomodations for Disabled Employees										
23	0.00	50,000	0	0	50,000	0.00	0	0	0	0
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation										
23	0.00	607	0	0	607	0.00	526	0	0	526
Total	**0.50**	**$96,696**	**$0**	**$0**	**$96,696 ***	**1.00**	**$76,107**	**$0**	**$0**	**$76,107 ***

<u>DP 2301 - Training Development Spec. FTE Funding Switch -</u> An increase of $102,900 general fund for the biennium is requested to switch funding from proprietary funds to general fund for 0.50 FTE in FY 2010 and an additional 0.50 FTE in FY 2011. The funding switch is for the training manager position currently funded in the interagency training proprietary fund. A similar adjustment in the Professional Development Center proprietary program discussion provides for the other side of this funding switch.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The State Human Resource Division (SHRD) is charged with developing a broad workforce development model for Montana's executive branch. The model will include long-term strategies for attracting, retaining and developing state government's workforce. The Human Resources Policy and Programs (HRPP) Bureau will lead the project. The Professional Development Center (PDC) will be responsible for developing the model's training components and helping HRPP consult with agencies. The PDC operates under a proprietary fund, charging its services to state agencies and other entities. Without a general fund appropriation, the PDC will not be able to develop these critical components.

Goal: The goal is to help agencies develop their workforces by developing and delivering relevant training. The HRPP Bureau's first objective of this goal is to pilot a statewide workforce development plan for information technology positions that can be used as a model for other occupations common to all state agencies (e.g. budgeting, accounting, human resources). The training manager will work with the HRPP Bureau staff to identify training needs, develop and update courses and course material, sponsor special interest events, and examine alternative methods of delivering training and other services.

Performance Criteria: The following plan was provided for the state workforce development model the FTE would work on:

- o Begin six month trial of revised performance appraisal (PA) process, 1/1/09
    - Evaluate revised process, 6/15/2009
    - Develop and present PA training, 7/1/2010 - 9/30/2010
    - Use PA data to identify “A” players, levels of employee engagement
- o New hire satisfaction survey process, 12/15/2008 - 2/15/2009
    - Begin a survey of employees hired in the last year
    - Repeat the survey for all employees 90 days after hire

  - Survey Managers and supervisors of the newly hired employees
  - Compile results
  - Review for effects on: 1) recruitment and selection; 2) employee engagement; and 3) retention
- Professional Development Center (PDC) create and implement identified supervisory training, 7/1/2009 - 6/30/2011
  - Review existing on-line training software, 7/1/2009 - 12/31/2009
  - Select and install an on-line learning system, 1/1/2010 - 6/30/2010
  - Initial development and training - 1/1/2010 – 12/31/2010
  - Create on-line versions of existing training, 7/1/2010 – 12/31/2010
  - Develop new on-line courses as necessary, 1/1/2011 – 6/30/2011
- Develop a business case for an on-line learning management system
  - Review learning management systems (LMS), 7/1/2010 – 9/30/10
  - Develop a funding plan for an LMS, 10/1/11 – 12/31/2010
  - Propose possible purchase or development of an on-line LMS
  - Implement and test an LMS, if feasible, 1/1/11 – 7/1/11
- Develop and perform an employee engagement survey, 4/1/2009
  - Evaluate results for: 1) retention; 2) employee development needs; and3) management or supervisory development needs
  - PDC develops training, 7/1/09 – 12/31/09
- Continue work on succession planning, Information Technology Services Division
  - Identified key employees
  - Begin identifying successors
  - Create development plans for those identified in succession plans, 2/28/2009
  - Publish process model, 4/1/2009
- Evaluate impact of training on employee productivity and morale
  - Develop a training evaluation process (PDC) focused on: 1) post training performance; and 2) employee's impact on work team and work environment

Milestones: The milestones are identified above under performance criteria and the model will be completed by June 30, 2011.

FTE: Existing staff in the HRPP Bureau will lead the project; the PDC training manager will develop the training component.

Obstacles: The requested general fund appropriation will pay 50 percent of the training manager's salary and benefits in FY 2010 and 100 percent in FY 2011. The training manager will devote that proportion of his or her time to workforce development. As a result, the PDC will see reduced proprietary revenue because of cutbacks in the manager providing fee-based training. The funding will be appropriated to the training bureau (PDC).

Fees: The model's success relies on the combined efforts of the HRPP Bureau, the PDC, and the affected state agencies.

Risks: Without a general fund appropriation, the PDC would not be able to develop these critical components. That responsibility would rest with individual state agencies. This would result in inefficiently duplicating efforts or, in the case of smaller agencies, no training.

LFD ISSUE

One Time Funding

According to the only milestone provided for this request, the workforce development model would be completed at the end of the 2011 biennium. The purpose for the funding switch would no longer exist after this time. If the legislature concurred in this funding switch, it may want to designate the general fund for this position as one time only and specify that the position should return to being funded with proprietary funds in the 2013 biennium.

DP 2302 - Interagency Disabilities Advisory Council - An increase of $18,800 general fund for the biennium is requested to fund costs for meetings of the Interagency Disabilities' Advisory Council. There are 11 members on this council. It is assumed there would be quarterly meetings with members travelling an average 200 miles round trip.

LFD COMMENT

The Interagency Disabilities' Advisory Council was created in April 2008 under Executive Order 31-2008. The council is charged with the following duties:

- Identify barriers to employment for people with disabilities, both in state government and in the private sector
- Identify resources available from state and local government and private and nonprofit sectors to assist people with disabilities in overcoming employment barriers
- Identify areas of potential collaboration and coordination of funding, personnel, and other resources, both in state government and in the private sector, to overcome employment barriers and support the employment of people with disabilities
- Develop recommendations for strategies and long-range plans for state agencies to increase the employment of people with disabilities
- Promote positive images and support the individual self-determination and independence of persons with disabilities through equal access to employment and other opportunities
- Assist with an annual training for state human resources personnel, hiring managers, supervisors, ADA coordinators, legal counsel and other appropriate parties regarding the employment of people with disabilities in state government
- Provide the Governor or his representative a report summarizing information, recommendations, and accomplishments regarding all duties of the council

DP 2303 - Workplace Accomodations for Disabled Employees - An increase of $50,000 general fund for the biennium is requested to assist state agencies in funding requests for reasonable accommodations under Title I of the Americans with Disabilities Act of 1990 (ADA). The ADA requires employers to provide reasonable accommodations to qualified individuals with disabilities who are employees or applicants for employment, unless doing so would cause undue hardship. The executive requests that an appropriation for these funds be designated as one time only.

LFD ISSUE

No Specific Purposes Identified

Other than stating that the funds would be to assist agencies in addressing reasonable accommodations issues, the funding is requested for unspecified purposes. The legislature may want to ensure these funds are used only for addressing reasonable accommodations issues by restricting the appropriations for this purpose in addition to one time designation recommended by the executive.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

Professional Development Center (Intergovernmental Training Fund – 06525)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Professional Development Center - Proposed Budget Table					
Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	3.04	(0.50)	2.54	(1.00)	2.04
61000 Personal Services	$183,474	($36,529)	$146,945	($64,395)	$119,079
62000 Operating Expenses	133,537	(910)	132,627	(425)	133,112
Total Costs	$317,011	($37,439)	$279,572	($64,820)	$252,191

Proprietary Program Description

The intergovernmental training fund supports the operation of the Professional Development Center (PDC). The PDC provides training and other services, such as facilitation, mediation, and curriculum design, to state agencies on a fee reimbursement basis. The use of PDC training is not mandatory for agencies that could choose from several available alternatives, such as seminars sponsored by national training firms, conferences and symposia, contracted training consultants, in-house training programs, and courses through post-secondary education institutions.

Funding

In FY 2008, the Professional Development Center had revenues of $321,139 from fees paid by agencies statewide. The funding for customer payments to the PDC could not be determined because the accounting code used to record payments to the PDC for training is also used to record a variety of other training costs.

LFD ISSUE

Sources of Funding for Payments to the PDC

The funding for payments made to the PDC is not able to be determined without extensive manual work. If in the future the legislature wants to track the funding sources used to pay for training provided by the PDC, it may want to request the department establish a unique accounting code to record expenditures for services of the PDC.

Program Narrative

Expenses

In FY 2008, PDC expenses were in the following expense areas:

- Personal services for 3.04 FTE of $187,400, or 58 percent of expenses
- Operating costs are $133,500, or 42 percent of expenses and are broken down as:
    - $49,100 in fixed costs, the highest of which is rent for office and training space
    - $84,400 in variable costs

Revenues

The PDC provides training services for a fee according to the following practices:

- Open enrollment trainings in which the PDC schedules, promotes, and conducts courses that are open to students from all state agencies, and other public entities. PDC charges a set fee per student for attendance
- Contract courses in which the PDC contracts with individual agencies to provide training for its staff. The agency schedules, promotes, and provides the facility for training. PDC provides the instruction and class materials. PDC charges a flat fee, depending on the length of the training and the number of events the agency has contracted and offers a discount for multiple training events
- Facilitation, mediation, consulting, and curriculum development. PDC charges on an hourly rate basis
- Publications and meeting rooms. PCD charges on a fixed schedule

The figure for fund 06525 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06525	Intergovernmental	61010	Administration	State Human Resources

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$187,416	$184,121	$146,945	$119,079
Other Operating Expenses	143,664	116,915	133,149	133,507
Total Operating Expenses	331,080	301,036	280,094	252,586
Operating Revenues:				
Revenue From Fees	321,139	299,000	281,801	259,440
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	322	0	0	0
Total Operating Revenue	321,461	299,000	281,801	259,440
Operating Gain (Loss)	(9,619)	(2,036)	1,707	6,854
Other Sources (Uses)	0	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Y	(68)	(9,687)	(11,723)	(10,016)
Net Increase (Decrease) of Net Assets	(9,619)	(2,036)	1,707	6,854
Prior Period Adjustments	0	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	($9,687)	($11,723)	($10,016)	($3,162)

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Professional Development Center - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	($2,120)	($90)
DP 0106 Allocate department indirect/admin cost	1,266	1,360
Total Present Law Adjustments	$917,866	$1,124,650

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

Professional Development Center - New Proposals		
DP Name	FY 2010	FY 2011
DP 2301 Training Development Spec. FTE Funding Switc	($36,681)	($66,173)
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	96	83
Total New Proposals	($36,585)	($66,090)

DP 2301 Training Development Spec. FTE Funding Switch – A reduction of $102,900 proprietary funds for the biennium is requested to switch funding from proprietary funds to general fund for 0.50 FTE in FY 2010 and additional 0.50 FTE in FY 2011. The funding switch is for the training manager position currently funded in the interagency training proprietary fund. A similar adjustment in the HB 2 portion of this division discusses the other side of the funding switch and provides an expanded justification for legislative deliberations. The adjustment would have no impacts on the PDC rates.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

Professional Development Center - Rates				
	Actual	Budgeted	Requested	Requested
Rate	FY 2008	FY 2009	FY 2010	FY 2011
Open Enrollment Courses				
Two-day course (per participant)	$182	$185	$185	$187
One-day course (per participant)	115	118	118	120
Half-day course (per participant)	87	90	90	93
Eight-day management series (per participant)	550	560	560	565
Six-day management series (per participant)	425	430	430	435
Four-day administrative assistant series (per participant)	320	325	325	330
Contract Courses				
Full-day training (flat fee)	800	820	820	825
Half-day training (flat fee)	550	560	560	565

Human Resources Information Systems Bureau (Payroll Fund - 06563)

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Human Resource Information Systems - Proposed Budget Table					
Account Name	Actual Base	FY 2010 Adjustments	FY 2010 Total	FY 2011 Adjustments	FY 2011 Total
FTE	25.93	0.00	25.93	0.00	25.93
61000 Personal Services	$1,636,283	$34,074	$1,670,357	$39,150	$1,675,433
62000 Operating Expenses	1,650,075	51,499	1,701,574	(3,007)	1,647,068
Total Costs	$3,286,358	$85,573	$3,371,931	$36,143	$3,322,501

Proprietary Program Description

The Human Resources Information System (HRIS) Bureau operates payroll, benefits and human resources (HR) systems of the State Accounting Budgeting and Human Resources (SABHRS) to process, distribute, report, and account for payroll, benefits and associated withholding and deductions for over 13,500 state employees in the Executive, Legislative and Judicial branches. The bureau establishes and maintains standards, processes and procedures to be followed by state agencies in preparing and submitting payroll, benefits and related HR data into the system. The system operated by the bureau provides information and processing in support of division and statewide functions and programs including employee benefits (group insurance, FSA, deferred compensation, and pension) classification, pay, labor relations, policy, and training.

Funding

The following table shows estimated funding sources for payments made by users for the base and the 2011 biennium.

Estimated Funding for Payments to Human Resource Information Systems			
Item	Base	FY 2010 est.	FY 2011 est.
General Fund	$939,345	$836,636	$757,151
State Special Revenue	689,574	724,506	653,274
Federal Special Reven	383,909	324,107	293,703
Proprietary	1,183,433	2,331,627	2,082,315
Other	93,900	49,063	45,154
Total Payments	$3,290,161	$4,265,938	$3,831,596

Program Narrative

Expenses

Significant costs for the program are for:

- Personal services for 25.93 FTE ($1.6 million)
- Operating costs to operate SABHRS HR systems ($1.3 million)
- Printing and postage costs ($0.1 million)

Revenues

Revenues are derived from charges to all agencies for processing payroll and charged per employee processed per pay period.

The figure for fund 06563 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06563	Human Resource	61010	Administration	Human Resources

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$1,668,038	$1,680,666	$1,670,357	$1,675,433
Other Operating Expenses	3,511,251	1,714,135	1,701,589	1,647,078
Total Operating Expenses	5,179,289	3,394,801	3,371,946	3,322,511
Operating Revenues:				
Revenue From Fees				
HRIS Fees	1,036,598	1,002,608	3,891,938	3,457,596
HRIS SABHRS	2,253,563	2,221,525	374,000	374,000
Revenue From Fees	3,290,161	3,224,133	4,265,938	3,831,596
Investment Earnings	0	0	0	0
Securities Lending Income	0	0	0	0
Other Operating Revenues	273	0	0	0
Total Operating Revenue	3,290,434	3,224,133	4,265,938	3,831,596
Operating Gain (Loss)	(1,888,855)	(170,668)	893,992	509,085
Other Sources (Uses) (Note 1)	1,586,037	0	0	0
Net Assets as of July 1 (Beginning of Fiscal Y	78,426	337,979	167,311	1,061,303
Net Increase (Decrease) of Net Assets	(302,818)	(170,668)	893,992	509,085
Prior Period Adjustments	562,371	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$337,979	$167,311	$1,061,303	$1,570,388

Note 1 - Contributed capital in FY 2008 due to the reorganization of SABHRS operating functions (see SABHRS fund 06511 for a transfer out with the same magnitude).

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Human Resource Information Systems - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$81,569	$31,343
DP 0106 Allocate department indirect/admin costs	3,198	4,103
Total Present Law Adjustments	$84,767	$35,446

<u>DP 0106 - Allocate department indirect/admin costs -</u> An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

Human Resource Information Systems - New Proposals		
DP Name	FY 2010	FY 2011
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	$806	$697

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

Human Resource Information Systems - Rates				
	Actual	Budgeted	Requested	Requested
Rate	FY 2008	FY 2009	FY 2010	FY 2011
Payroll fee (per employee processed per pay p	$1.56	$1.47	$9.37	$8.04

Rate Explanation

Payroll rates are a fixed cost in agency budgets and are allocated to each agency based on the number of employees paid the previous biennium.

The fee charged to the Health Care and Benefits Division is determined by projecting the costs of processing eligibility elections of the 35,000 plan members through the next biennium in conjunction with a memorandum of understanding outlining the type and frequency of services delivered.

Rates for the 2011 biennium are substantially higher that the FY 2008 due to the reorganization that moved the human resources systems to the program. The FY 2008 rate reflects a situation where the payroll program did not operate or pay the operating costs for these systems except for those costs associated directly with the payroll processes. Commensurate reductions in SABHRS financial systems rates of the State Accounting Division should result from the reorganization. See the discussion in the State Accounting Division for additional information on the reorganization impacts.

Proprietary Rates

Proprietary Program Description
The Risk Management and Tort Defense Division administers a comprehensive plan of property and casualty insurance protection on behalf of state government. The division purchases commercial insurance, where cost-effective, to cover catastrophic losses above high deductibles. State risks that are currently insured through commercial insurance carriers include aircraft, airports, boilers and machinery, bonds (various), crime, fine art, property, professional liability, and miscellaneous. The state self-insures most commercial insurance risks under $250,000 per occurrence as well as auto, general liability, inland marine, mobile/specialized equipment, and foster care risks. The division also provides consultative services that include training, inspections, program reviews, contract administration, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss. The division investigates, evaluates, and resolves tort claims, and coordinates the adjudication and settlement of other claims involving property damage.

Program Highlights

Department of Administration **Risk Management and Tort Division** **Major Budget Highlights**
♦ Insurance premiums are slightly lower than premiums in the 2009 biennium
Major LFD Issues
♦ Performance objectives could be strengthened

Funding
The Risk Management and Tort Defense Division is funded entirely with proprietary funds financed with revenues from premium payments from state agencies.

The following table shows estimated funding sources for premium payments made by state agencies for the base and the 2011 biennium.

Estimated Funding for Payments to Agency Insurance

Item	Base	FY 2010 est.	FY 2011 est.
General Fund	$2,901,657	$2,889,361	$2,889,361
State Special Revenue	3,875,412	3,858,989	3,858,989
Federal Special Revenue	835,543	832,002	832,002
Proprietary	4,711,397	4,691,431	4,691,431
Other	25,777	25,668	25,668
Total Payments	$12,349,787	$12,297,450	$12,297,450

Program Narrative

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The following key goal for the 2011 biennium and key objectives that are supported by decision packages or base funding included in the executive budget for the program was provided:

- o Promote the development of risk management principles and techniques through consultation, training, and communications with state agencies
    - Conduct loss prevention inspections at key state properties each year of the biennium to reduce losses
    - Establish effective loss prevention strategies within state government to reduce losses

LFD ISSUE

Goal and Objectives Lack Outcomes and Timing Specifics

The program does two basic functions: 1) administer a state insurance fund and defend the state against claims; and 2) manage risks to the state. The above goal and objectives relate to the risk management functions, the outcomes of which are more controllable to the division than the administering and defending the insurance fund. Neither the goal nor objectives specify what specific outcome, besides to reduce losses, the efforts funded in the budget would strive to achieve or what measures will be used and when the measures will be assessed to determine if the efforts are progressing as intended.

The legislature may wish to discuss with the agency how to restate this goal in achievable terms and to develop measurable objectives that may be used by the legislature to determine progress toward achievement of the goal.

Expenses

Base year program costs were driven by the following cost areas:

- o Benefits and claims ($10.4 million), made up of insurance payments for the various lines of insurance covered by the program
- o Premium payments for commercial insurance ($2.2 million)
- o Legal fees and court costs ($1.8 million)
- o Personal services ($886,000)
- o Other legal costs ($430,000)

The availability and affordability of commercial excess insurance is being impacted by the national issue with the global financial market and insurance industry underwriting losses. Because of these pressures, payments for commercial insurance are expected to grow, at least in the short-term.

Revenues

In addition to investment income on the state self-insurance fund, the department collects revenues through premium payments from state agencies for the following lines of insurance:

- o Auto
- o Aviation
- o General liability
- o Property

Agency insurance premiums are developed based on risk exposure and previous claims experience.

Fund Report

The figure for fund 06532 shows the financial information for the fund from FY 2008 through FY 2011. The LFD edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06532	Agency Insurance Internal	61010	Administration	Risk Management & Tort

	Actual FY 2008	Budgeted FY 2009	Projected FY 2010	Projected FY 2011
Operating Expenses:				
Personal Services	$885,617	$1,040,091	$1,074,479	$1,079,770
Other Operating Expenses	15,382,879	12,630,617	13,881,808	13,866,912
Total Operating Expenses	16,268,496	13,670,708	14,956,287	14,946,682
Operating Revenues:				
Revenue From Premiums	12,349,788	12,900,022	12,297,451	12,297,451
Investment Earnings	1,113,873	1,200,000	1,200,000	1,200,000
Securities Lending Income	35,882	0	0	0
Other Operating Revenues	193	0	0	0
Total Operating Revenue	13,499,736	14,100,022	13,497,451	13,497,451
Operating Gain (Loss)	(2,768,760)	429,314	(1,458,836)	(1,449,231)
Other Sources (Uses) (Note 1)	836,466	257,309	383,885	383,885
Net Assets as of July 1 (Beginning of Fiscal Year)	8,520,941	6,588,932	7,275,555	6,200,604
Net Increase (Decrease) of Net Assets	(1,932,294)	686,623	(1,074,951)	(1,065,346)
Prior Period Adjustments	285	0	0	0
Cumulative Effect of Account Change	0	0	0	0
Net Assets as of Jun 30 (End of Fiscal Year)	$6,588,932	$7,275,555	$6,200,604	$5,135,258

Note 1 - Includes nonoperating revenue in FY 2008 ($96,897), operating transfers out of $941,583 in FY 2008 and $126,576 in FY 2009, and operating transfers out of $1,681,152 in FY 2008 and $383,885 in each of fiscal years 2009 through 2011

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Agency Insurance - Present Law Adjustments

DP Name	FY 2010	FY 2011
DP 0000 Statewide Adjustments	$175,468	$164,504
DP 0106 Allocate department indirect/admin costs	29,385	30,811
Total Present Law Adjustments	$204,853	$195,315

DP 0106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT

This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

Agency Insurance Internal Services Program - New Proposals		
DP Name	FY 2010	FY 2011
DP 6101 Fixed Cost Work Comp Mgmt Pgm Allocation	$498	$431

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

Agency Insurance Internal Services Program - Rates

	Actual FY 2008	Budgeted FY 2009	Requested FY 2010	Requested FY 2011
Auto/Comp/Collision	$1,097,185	$1,146,000	$1,135,000	$1,135,000
Aviation	167,807	185,931	212,451	212,451
General Liability	7,064,383	7,124,500	6,750,000	6,750,000
Property/Miscellaneous	4,020,413	4,443,591	4,200,000	4,200,000
Total	12,349,788	12,900,022	12,297,451	12,297,451

Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	7.50	7.50	7.50	7.50	7.50	7.50	0.00	0.00%
Personal Services	350,262	357,696	456,638	440,887	707,958	897,525	189,567	26.78%
Operating Expenses	61,386	63,396	79,070	84,326	124,782	163,396	38,614	30.95%
Local Assistance	500	811	6,900	3,500	1,311	10,400	9,089	693.29%
Total Costs	**$412,148**	**$421,903**	**$542,608**	**$528,713**	**$834,051**	**$1,071,321**	**$237,270**	**28.45%**
General Fund	412,148	421,903	542,608	528,713	834,051	1,071,321	237,270	28.45%
Total Funds	**$412,148**	**$421,903**	**$542,608**	**$528,713**	**$834,051**	**$1,071,321**	**$237,270**	**28.45%**

Program Description

The State Tax Appeal Board provides a tax appeal system for all actions of the Department of Revenue. It hears appeals from decisions of the 56 county tax appeal boards, primarily involving residential and commercial property valuation, and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally-assessed property and new industry property, motor fuels taxes, vehicle taxes, and cabin site leases. The board travels throughout the state to hear appeals from decisions of the county tax appeal boards and to conduct informational meetings for the various county tax appeal boards. The State Tax Appeal Board directs the county tax appeal board secretaries, who are state employees, and pays their salaries and employee benefits from its personal services appropriation. The board also reviews and pays the expenses, including employee benefits, of those county tax appeal board secretaries who are county employees. In addition, the board pays the clerical-related expenses for all 56 county tax appeal boards, including supplies, postage, and copies, but excluding office equipment.

Program Highlights

Department of Administration
State Tax Appeals Board
Major Budget Highlights

- General fund increases $237,000, or 28.4 percent, from the 2009 to the 2011 biennium
  - Statewide present law adjustments mostly for personal services add $182,000
  - $57,400 would address workload impacts expected from the statewide reappraisal of property

Major LFD Issues

- Performance objectives could be strengthened

Program Narrative

Goals and Objectives

2009 Biennium Major Goals Monitored

No goals specific to this division were monitored during the 2009 biennium

2011 Biennium Major Goals

The agency is required by law to submit goals and measurable objectives as part of the budgeting process. The Legislative Fiscal Division recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The board provided the following goal for the 2011 biennium that is key to the boards function and is supported by decision packages or base funding included in the executive budget for the board:

- To timely hear and make decisions on tax appeals filed with the board, in accordance with relevant state and federal laws

LFD ISSUE

No objectives were provided for this or any other goals of the board.

The budget request for the board references workload impacts that are anticipated to arise from the most recent property reappraisal. Providing the assumptions of measurement and timing of the measures as they relate to board workloads that were used in the budget development would enable the legislature to engage in policy discussions about the appropriateness of funding for board operations. The legislature may wish to discuss with the board what it would measure to evaluate if the board was providing timely hearings and making timely decision on appeals filed with it. The legislature may also wish to discuss with the board what objectives the board was anticipating it would achieve with the proposed budget and how and when the legislature could monitor to assess the board's progress toward attainment of the objectives.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table

State Tax Appeal Board

Program Funding	Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000 Total General Fund	$ 412,148	100.0%	$ 542,608	100.0%	$ 528,713	100.0%
01100 General Fund	412,148	100.0%	542,608	100.0%	528,713	100.0%
Grand Total	$ 412,148	100.0%	$ 542,608	100.0%	$ 528,713	100.0%

The board is funded entirely by the general fund. General fund would grow by $237,270, or 28.4 percent, from the 2009 biennium to the 2011 biennium. A major factor for the increase is a $189,600, or 26.8 percent, growth in personal services while in the base year the board had a 33.3 percent vacancy rate in FTE hours.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	412,148	412,148	824,296	76.94%	412,148	412,148	824,296	76.94%
Statewide PL Adjustments	90,301	91,667	181,968	16.99%	90,301	91,667	181,968	16.99%
Other PL Adjustments	3,525	3,696	7,221	0.67%	3,525	3,696	7,221	0.67%
New Proposals	36,634	21,202	57,836	5.40%	36,634	21,202	57,836	5.40%
Total Budget	**$542,608**	**$528,713**	**$1,071,321**		**$542,608**	**$528,713**	**$1,071,321**	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					98,319					99,621
Vacancy Savings					(17,943)					(17,996)
Inflation/Deflation					202					279
Fixed Costs					9,723					9,763
Total Statewide Present Law Adjustments					**$90,301**					**$91,667**
DP 106 - Allocate department indirect/admin costs	0.00	3,525	0	0	3,525	0.00	3,696	0	0	3,696
Total Other Present Law Adjustments	**0.00**	**$3,525**	**$0**	**$0**	**$3,525**	**0.00**	**$3,696**	**$0**	**$0**	**$3,696**
Grand Total All Present Law Adjustments					**$93,826**					**$95,363**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate**
  - The statewide personal services adjustment represents salaries for the division at an estimated 100 percent of market relative to the 2008 executive branch market survey and, prior to making the October 1, 2008, salary increases of HB 13 from the 2007 Legislature, was 98 percent of market relative to the 2006 executive branch market survey
- **Vacancy**
  - The division has identified board recruitment challenges along with funding as an area of concern regarding vacancies

LFD COMMENT

The board identifies recruitment of board members as a challenge yet the board positions were filled 99.7 percent of the base year as determined by FTE hours.

- **Legislatively Applied Vacancy Savings**
  - The division used normal turnover and when vacancies occur, held positions open in order to achieve the 4.0 percent legislatively applied vacancy savings rate

LFD COMMENT

In terms of FTE-hours, the division experienced a 33.3 percent vacancy rate. Eliminating the impact of legislatively imposed 4 percent vacancy savings, the division under spent its personal services authority appropriated by the 2007 Legislature by 1.6 percent. Vacancies were predominantly in county tax appeal board positions in which 150 hours were expended for 2.50 FTE when 5,220 hours were funded.

- **Pay Changes**
  - Pay increases given to board staff were for board salary increases approved by the Governor and the 3.0 percent fixed increases funded in HB 13 of the 2007 Legislature.

LFD COMMENT Funding from the 0.6 percent flexible funding of HB 13 was used along with transfers for other program areas to fund pay increases for 3.00 FTE board members. Market adjustments were given exclusively to three board positions and one strategic pay adjustment was given to one board position who also received a market adjustment. Market adjustments and strategic pay adjustments for the three board members were given in addition to the 3.0 percent increases of HB 13 and equated to more than five times the 3.0 percent pay increases.

- **Retirements**
    - The division anticipates two of five employees would be eligible for full retirement (30 years of state service or 60 years of age) in the 2011 biennium and these retirements would result in about $12,000 in unfunded compensated absence liability

LFD COMMENT The board responded to the standard personal services questions by stating that "staff positions are stable, but board positions have high turnover due to inadequate funding". However, a review of the board positions shows that the only turnover since 2000, turnover in board positions has been due to term limits as specified in statute. During the base year, all three board positions were filled. Historical vacancies in board positions do not support the statement that pay increases were provided to address board recruitment issues.

Funding from vacancies in county tax appeal board FTE was used to fund pay raises primarily given to board members outside the HB 13 pay plan funding as evidenced by the 33.3 percent vacancy rate in FTE-hours and the 1.6 percent reversion of budget authority.

DP 106 - Allocate department indirect/admin costs - An increase is requested to fund increases in indirect cost payments for services received from proprietary funded centralized service functions of the agency.

LFD COMMENT This is a common adjustment for all programs of the agency. For more information on this adjustment across the agency, see the figure and corresponding discussion in the Agency Discussion section.

New Proposals

New Proposals	Fiscal 2010					Fiscal 2011				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3701 - STAB 2009 Statewide Reappraisal of Property										
37	0.00	36,400	0	0	36,400	0.00	21,000	0	0	21,000
DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation										
37	0.00	234	0	0	234	0.00	202	0	0	202
Total	**0.00**	**$36,634**	**$0**	**$0**	**$36,634 ***	**0.00**	**$21,202**	**$0**	**$0**	**$21,202 ***

DP 3701 - STAB 2009 Statewide Reappraisal of Property - An increase of $57,400 general fund for the biennium is requested to address county tax appeal board costs associated with anticipated increased workload issues after the property tax reappraisal that becomes effective in January 2009. Funding is for county tax appeal board per diem ($35,000) and other costs associated with the increased workload.

LFD COMMENT All residential, commercial, and timber land will be revalued for tax purposes effective January 2009. This will be the first revaluation in six years. In addition, all agricultural land will be reviewed for production values for the first time since 1963. Property tax appeals are heard by the county tax appeal boards before they are appealed to the state tax appeal board. According to the department, the amounts of this request are the increased costs seen following the 2002 reappraisal.

DP 6101 - Fixed Cost Work Comp Mgmt Pgm Allocation - The Workers' Compensation Management program at the Department of Administration was funded by the 2007 Legislature with a one-time-only general fund appropriation. For the 2011 biennium and beyond, the executive proposes funding via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as a one time only for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.